Garrett's Guide to Financial Planning

3rd Edition
EXCERPT

HOW TO CAPTURE A PIECE OF THE UNTAPPED MARKET

SHERYL GARRETT CFP®

Garrett’s Guide

How to Thrive Working In An Untapped Market

Sheryl Garrett

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Praise For The 1st Edition

This is the book we've all been waiting for! For years Sheryl Garrett has been the inspired leader of a movement to bring the highest quality financial planning to the middle income market. Now she tells us how to do it, soup to nuts, in her book, *Garrett's Guide to Financial Planning*. ***George D. Kinder, CFP, author of The Seven Stages of Money Maturity.***

This book, written by one of the industry's most innovative thinkers, is the ultimate guide to serving the largely untapped Middle Market efficiently and profitably.

Joel P. Bruckenstein, CFP, CFS, CMFC, co-author of Virtual Of fi ce Tools for a High-Margin Practice: How Client-Centered Financial Advisors Can Cut Paperwork, Overhead, and Wasted Hours and Tools

& Techniques of Practice Management

Sheryl Garrett worked in every type of financial services environment and then came up with a business model to do something no one thought could be done: provide fee-only financial advisory services to the middle class while making a good living. Her book tells you not only why the less-than-semi-affluent are great clients, but exactly how to find them and keep them satisfied.

David J. Drucker, MBA, CFP, co-author of Virtual Office Tools for a High-Margin Practice: How Client-Centered Financial Advisors Can Cut Paperwork, Overhead, and Wasted Hours and Tools & Techniques of Practice Management

Sometimes the best clients are right under our nose: working Americans, whose financial decisions can be more critical to their future than the wealthy. Helping this market achieve financial independence is something every financial advisor can be proud of. For everyone who has ever wondered where to find new clients, Sheryl Garrett has come to the rescue. Here is a remarkably smart and solid plan to helping Americas retire with confidence.

Katherine Vessenes, JD, CFP,
national speaker, and author of Protecting Your Practice

Sheryl Garrett is a pioneer, visionary and hero to middle Americans and the planners who serve them. This book is a gift.

Randy Gardner, LLM, CPA, CFP, MBA,
co-author of 101 Tax Saving Ideas

The Financial Industry and the Financial Planning business are both in the clutches of enormous change. Organizational realignment of structures and skills to better meet the public's needs is the order of the day. Sheryl Garrett's book is a common sense, clear view of the issues of the day, followed by a Peter Drucker-like analysis of Middle Market opportunities and practice management concepts. No one should miss this wonderful addition to the industry's body of knowledge.

Richard R. Lee Jr., CFP, CFA

Americans are searching for affordable financial guidance that is completely objective and relative to their particular needs. Sheryl is a pioneer in advocating and offering this kind of financial planning advice. Her book shares these years of experience and offers practical insights on how to offer hourly-based, affordable financial advice to anyone seeking such direction. The time has come for qualified financial planners to follow Sheryl's example and her book is the perfect "bridge" to that new practice model. This is a "must read" for any financial planner who wants to stay on the '"cutting edge" of the profession.

Paul Lemon, Integrated Financial Planning PC

Sheryl Garrett has revolutionized the financial advisory profession. She has taken the as-needed, fee-only financial advice model to the mainstream and proven that it works. This book paves the way for new models like ours and the

tens of thousands of financial advisors who want to get quality, objective and affordable financial advice to all Americans.

Ron Peremel, CEO, myFinancialadvice.com

Sheryl Garrett makes a compelling case for financial advisors to serve middle American clients. Better yet, she goes on to teach you how to be successful in this huge market. A must-read for every financial advisor, especially those advisors new to the business.

Warren J. Mackensen, CFP, MBA, MS

One of the keys to the advancement and growth of the financial planning profession are new practice models to serve more people more efficiently. As a leader in this area, Sheryl has found some ways of building a profitable practice to serve the Middle Market. She freely shares her substantial knowledge and experience in a practical and useable way. For someone wanting to build a new practice today, this book is invaluable. The market she identifies is ready to harvest and she shows how to do it. The book is well organized and readable and is a road map to success!

Jeffrey Lambert, CFP

Sheryl is a leading financial services authority having built a successful firm of networking RIAs across the U.S to serve the Middle Market. Through this book she is passing her expertise on to other financial service professionals. A must read for those trying to understand the industry and interested in serving the Middle Market.

Richard Sincere, www.sincereco.com

Finally! Sheryl Garrett fills a gaping hole in the financial planner's bookshelf with her comprehensive, no-nonsense guide to fee-only financial planning for middle America. Drawing on her many years of experience successfully serving this market, insight from industry leaders, and market data, Ms. Garrett makes a compelling argument that the future of financial planning lies on Main Street, not just with the wealthiest 10% of America traditionally served by the industry. But the book doesn't stop there! Chock full of tips, one-pagers, and pointers to valuable outside resources, *Garrett's Guide to Financial Planning* also provides the tools that financial planners need to tap this underserved market profitably. It outlines the needs, preferences, and buying patterns of this new target client, and describes the practice model best suited for meeting them. Plus it includes Sheryl's time-tested best practices for getting noticed despite the marketing clutter constantly facing today's consumer. I devoured the entire book in two sittings, and I'm sure I saved myself months, if not years, of effort.

Sherrill St. Germain,

www.newmeans.com

DEDICATION

To my parents, Jack and Barbara Garrett, for their unconditional love and devotion. Thank you for giving me my entrepreneurial spirit – you gave me both the wings and the courage to fly.

To all those who have shared in and supported my life's passions. You know who you are and how much I appreciate you.

ACKNOWLEDGEMENTS

This book would not have been possible without the professional contributions and unwavering dedication of my long-time marketing communications consultant, Marie Swift. Since 1998, Marie's support and creative alliance has amazed and inspired me. She has been my collaborator, coach, advisor and friend.

I also wish to thank my first and favorite editor, Sonya King, and the staff at National Underwriter Company for seeing the need and giving me the opportunity to initially write this book. My mission is to help make competent, objective financial advice available to anyone. The National Underwriter Company shares this value. I thank them for their foresight, vision and professional partnership in this endeavor.

Bob Veres, thank you for recommending me for this project. Also, many thanks for being a very influential factor in my successful launch and development of The Garrett Planning Network, Inc. Your continued insights and contributions to me – and to the industry as a whole – are always on target and very much valued and appreciated.

Jeff Rattiner, thank you for first convincing me that I should write professionally to express my commitments and share my values. Thank you for publishing my first article, and for your insightful comments in the Foreword of this book.

To my colleagues, partners and staff in my financial planning firm, Garrett Investment Advisors and the Garrett Planning Network you amaze and inspire me. Thank you for your support and loyalty for all these years. You have empowered me to help make competent, objective advice accessible since 1998. It's more than a mission, it's a goal in progress!

Jamie Gfeller Breeden, Kansas State University intern and research associate during the first edition (2002) and now one of my partners at the Garrett Planning Network, thank you for your assistance in gathering the initial research for this project, and your keen eye and attention to detail in all that you do.

Finally, to the members of The Garrett Planning Network, thank you for your faith in this mission, your enthusiasm and support for one another, and your passion to serve the Middle Market. You are the greatest group of people anyone could have the honor to lead.

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PREFACE

PRESS ON –

NOTHING IN THE WORLD CAN TAKE THE PLACE OF PERSISTENCE. TALENT WILL NOT, NOTHING IS MORE COMMMON THAN UNSUCCESSFUL MEN WITH TALENT. GENIUS WILL NOT; UNREWARDED GENIUS IS ALMOST A PROVERB. EDUCATION ALONE WILL NOT. THE WORLD IS FULL OF EDUCATED DERELICTS. PERSISTENCE AND DETERMINATION ALONE ARE OMNIPOTENT.

– Calvin Coolidge

In the fifteen years since this book was originally published, I have been determined to learn and observe as many “best practices” in the financial planning industry as well as potentially similar professions. My philosophies and approaches have evolved and crystallized since the original publication of *Garrett’s Guide to Financial Planning: How to Capture the Middle Market and Increase Your Profits* in 2002 and the 2nd edition in 2007. I am pleased to provide in this fully updated and expanded version the philosophies, characteristics, and procedures of successful middle market practitioners that I have learned from throughout my career, but most significantly over the last few years.

I retired as a personal financial planner in 2005. However, I remain very much involved in financial planning through my work as the founder and spokesperson for the Garrett Planning Network and Garrett Investment Advisors, the Committee for The Fiduciary Standard, expert witness work, and through various volunteer activities with our professional associations.

Hundreds of members of the Garrett Planning Network (Garrett), colleagues in the National Association of Personal Financial Advisors (NAPFA), and the Financial Planning Association (FPA) have been instrumental in exploring, distilling, and sharing these strategies and wisdom. Over the years I have had the honor and benefit of speaking with thousands of practitioners, while studying the industry and marketplace, in my determination to find more efficient and effective ways to help our clients meet their goals while we achieve ours.

I have incorporated these observations into this third edition of *Garrett’s Guide to Financial Planning*. Many of these tips I utilized in my financial planning practice; other great ideas, strategies, technologies, and techniques were learned from other professionals —and I would use these today if I were starting out all over again.

In this volume you will find not only commentary on the need and opportunity in this market, and how to market to it, but you will also find substantially more real life, hands-on examples in all areas of operating a financial planning practice—from business plan development, to streamlining your workflow, to your client deliverables. This volume fills in those essential gaps. *(However, please note that step by step details of some of these strategies and processes introduced in this text are reserved for the exclusive use of members of the Garrett Planning Network. If you want to know more, visit our website.)*

Our overriding purpose as I see it, is to affect positive change in peoples’ financial

lives. One of our primary responsibilities is to serve as “accountability coach” for our clients. Helping our clients achieve their most cherished objectives—that is what we do. What an awesome opportunity and responsibility! As you read *Garrett’s Guide to Financial Planning,* I hope you’ll benefit from learning about my practice and others like it, and my current thoughts on most effectively and efficiently serving Beginners, Middle Market, and Do-It-Yourself type clients.

Sheryl Garrett, CFP®, AIF®

Founder

Garett Planning Network, Inc.

December 2017

INTRODUCTION

My firms' mission statement is "to help make competent, objective financial advice accessible to all people." As I share how and why I established my hourly, as-needed financial planning practice, it will become clear that I am passionate about spreading the word:

MIDDLE AMERICANS, DO-IT-YOURSELFERS, AND PEOPLE FROM ALL WALKS OF LIFE NEED AND WANT TO WORK WITH A COMPETENT, OBJECTIVE FINANCIAL ADVIISOR!

- MAYBE YOU ARE THE ONE THEY ARE LOOKING FOR?

As you read my thoughts and digest the information, please take the time to reflect on your *own* needs, goals, and dreams. Consider the possibilities and do not overlook this great opportunity. By tapping the abundant market, I call "Middle America" (which is actually much, much broader than you may be thinking now), not only could you make a *huge* difference for a host of appreciative clients, but you could also gain better balance in your own life while enjoying a professional lifestyle and virtually no competition in building a sustainable business that you love.

That doesn't mean this work is easy. Starting any business or working as a financial planner under any delivery model, requires a significant commitment of time, energy, and to a lesser extent, money. All new business adventures involve risks. The more time you spend researching and planning *how* and *for whom* you wish to establish your service offering and design your business in advance, the more time, energy, money, and heartache you'll save in the long run.

As an advisor and consultant involved in the financial planning profession since 1987, I've had the privilege of knowing thousands of financial planning practitioners and financial services professionals. As a staff planner, registered representative, advisor to high net worth clientele, middle market advisor, coach and mentor to hundreds of financial advisors, and more recently, expert witness and consumer advocate, I've had exposure to most traditional financial services distribution channels and have had to discover for myself what business model fit me best and the clients I wanted to serve.

After serving a variety of client markets in these assorted professional settings and roles for over a decade, I finally came to the conclusion regarding how *I* needed and wanted to deliver financial advice—and to whom. I knew that I not only wanted to become a truly independent fiduciary financial planner, I needed to be self-employed to fully execute my optimal financial life plan. I knew I wanted to be able to serve all people, regardless of net worth, income level, or investable assets; and as a professional, I wanted to be in control of my work life and work product.

In 1997, while equal partner in wealth management firm Stepp & Garrett, Inc., a Kansas City-based financial planning firm specializing in serving high net worth clients, I became determined to make a change. While I had enjoyed success on many levels, I

eventually became convinced that the firm's focus on serving affluent clients, on a comprehensive wealth management basis, *only*, was too narrow to meet my personal objectives. We offered one total package of services, and the prospective client was free to choose whether to take it or leave it. Whether to hire us for more limited scope or shorter-term engagements was not an option. This service model is very appropriate for many practitioners and their clients, but it was too narrow to meet my personal and professional objectives.

I always felt a sense of remorse when I had to turn potential clients away because they did not meet our client profile or account minimums. I grew up in a modest home and inherited strong, working-class values from my parents. While I'd achieved what some would consider an enviable position, there was always a tug at my heart when regular folk—like my friends, family and neighbors—called to inquire about our services and I had to turn them away.

It was very hard to tell the hair stylist, postman, grocery store employee, church secretary, and local retailer, "Sorry, but you don't meet our minimums." Worse yet, I had no proven resource or other professionals to whom I felt comfortable referring them.

Is a photographer, plumber, or teacher less important than a highly paid corporate executive? Doesn't the freelance writer need my help as much (or more) than the delegating millionaire? Who would help my parents, family, friends, and neighbors with their most important financial decisions?

Obviously, they needed, wanted, and were willing to pay for help. Sometimes they just had a single pressing question or issue. Other times they needed validation and advice regarding key decisions they were facing. In some cases, they needed one or two subjects addressed, rather than a full financial plan; at other times, they needed and were willing to pay for more comprehensive financial planning services. But I was unable to provide the assistance they needed in the most effective manner under the service models of my past.

While working for clients on an annual retainer basis I began to feel increasingly burdened by the amount of responsibility and high level of ongoing commitment required to provide financial concierge level services. I'd carry a mental to-do list and felt that I was on call 24/7, even when I was on "vacation."

Eventually, I came to the realization that I wanted to serve "regular folk" and do-it-yourselfers, like me—and maybe you, too—who I knew were being overlooked and/or underserved by the financial services industry still to this day. I knew I'd need to be extremely efficient with my time and service delivery, and effectively adapt my marketing strategy to reach this huge, untapped market.

But since 1998, I've proven that it can be done—and with stellar success both personally and professionally, just like many before and so many after. I fell in love with my chosen vocation eleven years into it. Prior to this time, I tried to leave financial planning on three different occasions. The service models I had worked under in the past didn't fit me or the clients with which I preferred to work. But with my new service model and practice focus in place, not only did I become happier with the balance in my personal and professional life, I also helped people who *truly appreciated me and the advice I provided.* I generated a professional standard of living, like that of other financial services

professionals, attorneys, and business consultants yet I also have enough time and flexibility to fully enjoy life with my friends and family.

Join me, as we explore the boundless opportunities and joys of working with beginners, the middle market and do-it-yourselfers on an hourly, as-needed basis.

Regardless of how far you decide to eventually go to make competent, objective advice accessible to *all* people, by reading this book you will:

- gain some fresh perspectives on the nascent financial planning profession and some of the significant aspects of its evolution;
- learn about different service models and opportunities;
- discover "best practices" tips and techniques employed by some of the most successful new market practitioners in service today;
- be exposed to a host of financial planning resources; and
- glean key business planning, marketing and practice development insights.

I love hearing from other practitioners and would welcome your comments once you've completed reading the book.

So, let's get started – go to Chapter One now!

CHAPTER 1
THE EVOLUTION OF FINANCIAL PLANNING

IN A FEW HUNDRED YEARS, WHEN THE HISTORY OF OUR TIME WILL BE WRITTEN FROM A LONG-TERM PERSPECTIVE, IT IS LIKELY THAT THE MOST IMPORTANT EVENT HISTORIANS WILL SEE IS NOT TECHNOLOGY, NOT THE INTERNET, NOT E-COMMERCE. IT IS AN UNPRECEDENTED CHANGE IN THE HUMAN CONDITION. FOR THE FIRST TIME— LITERALLY—SUBSTANTIAL AND RAPIDLY GROWING NUMBERS OF PEOPLE HAVE CHOICES. FOR THE FIRST TIME, THEY WILL HAVE TO MANAGE THEMSELVES. AND SOCIETY IS TOTALLY UNPREPARED FOR IT.

Peter F. Drucker

Financial advisors of today are holistic and help clients make smarter financial decisions and address issues in all major areas of their clients' lives—family (biological and chosen), career, and leisure pursuits.

When we speak of family goals and responsibilities, I think of the following examples: homes; expenses for activities and responsibilities for our children and ourselves (e.g., summer camp, cars, college and professional education, health insurance, long-term support); older parents caring for a disabled sibling, one whom we may need to care for at some point; older parents personally needing financial or physical assistance; and support of other family (biological or chosen), or a best friend temporarily down on their luck.

The single biggest asset most of us have is our ability to make money. Unfortunately, our single biggest liability is our penchant for spending all our money. As financial advisors, we frequently advise clients on human capital issues such as the pros and cons of taking a new job offer, starting a business, investing in one's career, transitioning from one career to the next, and remaining active and productive in later years.

Leisure pretty much covers all other financial objectives (dining out, movie tickets, country club membership, golf, sports cars, boating, fishing, cabin at the lake)—essentially anything that falls outside of the realm of necessities.

As financial planners, we help people make better, more informed financial decisions. The subject matter is now very broad, touching on all aspects of our personal and professional financial lives. This broader view of the role of financial planning has been accelerated by the fiduciary movement.

To help put things into perspective—financial planning was born out of the insurance industry in the late 1960's to further identify clients' financial needs and to fulfill those needs with additional transactional product offerings. Life insurance companies began to expand their proprietary product offerings to include mutual funds, retirement plans, and variable annuities. Over time, many of the major life insurance companies evolved into the major financial services companies or conglomerates we know today.

In the early years, financial services professionals were generally captive agents of national insurance companies or brokers with major wire house broker-dealers. Investment and insurance products were limited to those branded by the respective company, and advisors were restricted to the products offered by their employer. Commissions received on the sale of insurance and investment products compensated these advisors. To better address the broad range of client financial planning needs, and to cross-sell additional products to their clients, advisors began to employ consulting and analysis techniques now known as the "financial planning process."

According to the CFP Board, today's financial planning process consists of the following six steps:

1. Establishing and defining the client-planner relationship
2. Gathering client data including goals
3. Analyzing and evaluating the client's financial status
4. Developing and presenting financial planning recommendations and/or

alternatives

5. Implementing the recommendations
6. Monitoring the recommendations

As more agents and brokers began using the financial planning process with their clients, they felt hampered by the limited product offerings available through their captive broker-dealer relationships and they began to seek the freedom offered by independent broker-dealers. To this day, the majority of financial services professionals are affiliated with independent broker-dealers.

Along with the variety of product offerings that became available to the independently registered financial advisors came the flexibility to charge clients fees in addition to or in lieu of commissions. Advisors could receive compensation for their time and advice, regardless of whether products were sold or not. However, most of their compensation still came from commissions.

For more than two decades, there has been a major movement within the financial services industry to increase fees as a percentage of revenues, although in most cases fees are imposed on assets under management (AUM), rather than based on the time and complexity of the client's situation. Sales commissions for most products have declined substantially during this period. Independent financial advisors are finding that charging fees in addition to receiving commissions normalizes their cash flow and allows them to focus their energies on providing financial advice on any issue for which their clients need assistance. Client engagements are no longer based on transactions alone. Transactional engagements have evolved into long-term client-advisor relationships, first AUM, then retainer, now hourly and fixed fee.

There has also been increased concentration on providing comprehensive financial advice. Many financial services representatives are evolving into financial planning professionals. They are embracing the value of comprehensive financial planning to provide clients with better financial advice and more holistic solutions. Rather than providing advice and solutions for just one area of the financial planning process, they are focusing on clients' needs and objectives in all aspects of their financial lives.

The "fee-only" compensation model is currently the fastest growing segment of the financial planning industry, and the trend is escalating. The primary reason for the popularity of fee-only advice is the relationship the advisor has with his or her clients. Consumers are becoming increasingly aware of the potential conflicts of interest with compensation and affiliated business interests of advisors. In recent years, the media has also been a strong advocate of the benefits of fee-only advice for consumers. This enhanced media coverage has fueled consumer interest in learning more about how their advisors are compensated and fee-only planning options.

Fee-only advice is available for the traditional financial planning issues, such as goal setting, cash flow planning, tax planning, investments and risk management, retirement planning, and estate planning. However, many fee-only practitioners have expanded their services and now include ongoing asset management, tax return and estate document preparation, trust services, and in some cases, concierge services, too.

In many cases, fee-only financial planners and independent advisors have become so successful and comprehensive in their service offerings that they have continually raised their minimum fees or assets under management requirements. As a result, most fee-only planners (in addition to a growing number of fee-based advisors) now target affluent and semi-affluent clients exclusively. Many of these practitioners are no longer able to take on new clients, and their success is drawing more competition to this end of the marketplace. The competition consists of larger financial advisory firms with vast resources, brand names, and relationships that facilitate the advisor's efforts to compete and serve the needs of more clients.

In two 1990s highly touted research papers by Undiscovered Managers, the authors addressed these issues and concluded that, "the business of providing financial advice to semi-affluent investors—is on the brink of a major evolution."

The Undiscovered Managers' studies have been highly controversial. One of the fundamental controversies has centered on the definition used by the researchers concerning the financial advisory business. The Undiscovered Managers' reports concentrated solely on the investment advisory aspect of the financial planning process. Their research went on to compare the then current climate in the financial advisory industry to that of the institutional money management industry 20 years before. They concluded that the same trends that occurred within the institutional money management industry would most likely unfold in the next five to 10 years within the financial advisory industry.

Unfortunately, the Undiscovered Managers' research equated *financial* advice with *investment* advice. This is a common misunderstanding for the public and the media alike. The financial planning industry also confuses *investment management* with *financial planning*. Investment advice is clearly a very important component of financial planning, but too many advisors and consumers confuse the two subjects. Investment advice and financial planning advice are not synonymous. Therefore, the conclusions drawn from this research should be taken only in the context they relate to the delivery of investment advice.

I see the financial advisory business as an evolving profession whose mission should be to provide the appropriate level of competent, objective financial advice to *any* individual seeking assistance. All consumers have the need to consult with a financial planning professional at one time or another. Competent, objective financial advice should not be reserved only for the wealthy.

The Undiscovered Managers' research leads to the conclusion that the future of the financial advisory business will be dominated by just a few large, institutional wealth management firms providing extremely comprehensive, one-stop-shopping advisory services to wealthy consumers. While this service model may be an important component of the future of financial services industry—based on the limited number of Americans desiring and able to afford this level of service and the significant competition in this marketplace—we are still left with a vast, untapped opportunity to serve segments of the population that do not fit this model.

In this book, we'll explore these untapped markets, and answer such questions as:

- Who are these consumers?
- What services do they seek from financial planners?
- What business models effectively and profitably serve this marketplace?
- How do we build a viable and sustainable business to serve this marketplace?
- How do we market to these consumers?
- What are the specific financial planning needs and the appropriate strategies for serving these clients?

Let's begin by looking at the factors affecting the evolution of the financial planning industry, and how the desires and demands of the consumer are a fundamental part of this evolution.

What’s Driving The Evolution?

Factors driving the evolution in the delivery of financial advice include the strong economy that we’ve experienced over most of the last 30 years, the availability and popularity of mutual funds, ETFs and indexing, the 401(k) plan, and the insecurity of the Social Security system. The bull markets of the 1980’s and 1990’s and beyond also caused many consumers to become more interested in taking a proactive role in their personal finances.

There is significantly more publicly available information regarding personal finance than ever before. In fact, two of the hottest topics in consumer journalism are personal health and personal finance. Personal finance publications such as *Kiplinger's Personal Finance*, *Smart Money*, and *Money* made it possible for all consumers to learn more about their personal finances and to take a more proactive role in the management of their own financial affairs.

The Internet has also made a significant impact in the availability of and access to financial information for all consumers. Lay people, freelance journalists and financial professionals are now blogging about personal finance. We can go online and aggregate our investment accounts, pay bills, transfer money or ask questions of CFP Professionals.

People are busier than ever. We want to have more control, to make things simpler, more convenient, available on our schedule and mobile, and more efficient.

The Internet has provided us with tools that can quickly and easily simplify our financial lives and provide us with greater control. We can now make photographic deposits, pay bills, rebalance our retirement account, book an appointment with our financial advisor – all with our smart phones.

Services such as Morningstar enable consumers to analyze individual mutual funds and portfolios. Financial Engines provide very sophisticated, yet user-friendly asset allocation tools that incorporate some of the most advanced financial simulation models available today to help manage retirement plan assets. Online tools have empowered consumers by providing them with highly sophisticated tools to analyze and manage their own personal finances. The result of the improvements in technology and access to information is that a cloak of mystery has been removed from the financial advisory business.

Many advisors in our industry were initially quite concerned about consumers’ increased access to information. Financial advisors/brokers were once the gatekeepers of financial information, we are no longer the only ones with access to the volumes of information, tools and resources needed by consumers. But professional advisors need not worry about job security—consumers still need help. They have more options and opportunities available to them today than at any time in the past. They need competent advisors that will work in their best interests to help them sort through the vast (and often confusing) amount of information and help them make the best decisions for their personal situations.

The plethora of information available has provided financial advisors with *more*, not fewer, opportunities to assist clients.

People are more aware of the options and range of opinions on the best approach to – whatever. It's noisy out there. A fiduciary advisor to turn information and tools into wisdom and prudent decision making is needed.

The amount of subject matter to be mastered in personal finance is enormous. It often takes professionals years to develop a level of expertise in most areas. Some say 10,000 hours. The average consumer cannot be expected to understand, stay current on, or be able to incorporate the many appropriate options and strategies that may be available to them (presuming they even wanted to).

As clients' needs and expectations of their advisors evolve, our nascent profession and service offerings must evolve as well. Financial planning practitioners who embrace service models that meet the needs of informed consumers will benefit from "the information age." Those professionals who put their client's needs first – always – will find working in a fiduciary world to be extremely rewarding.

Overseeing a portfolio of index funds can be simple but determining the appropriate asset allocations may be more complex. Services such as Financial Engines now provide the average consumer with specific asset allocation strategies based on their stated tolerance for risk. Once the appropriate asset allocations have been determined, investment companies such as Vanguard and Barclays make implementation of a passive asset allocation strategy simple and very cost-effective.

Some investors who embrace a long-term buy and hold asset allocation strategy may no longer feel it necessary to pay a professional investment advisor to implement a passive investment strategy. However, many consumers still need validation from a professional to confirm the appropriateness of their asset allocation, asset location, need for rebalancing and other decisions regarding their overall financial objectives.

Other important factors that have aided in the evolution of the financial planning profession are the public awareness and professional development activities of the CFP Board, the Financial Planning Association (FPA) and the National Association of Personal Financial Advisors (NAPFA), and numerous other industry and trade associations.

Traditional **F**inancial **P**lanning **T**arget **C**lients Vs. **T**ypical **A**merican **C**onsumers

The typical target client of the traditional financial planner may be described in broad terms as a "delegator." While the delegator's composite may not include "old money" (i.e., an inheritance), and although delegators may not necessarily be wealthy, these clients do enjoy sufficient resources as well as a desire to outsource many of the day-to-day services associated with an organized and successful life, or they are unable to manage on their own. The delegator client may happily pay for lawn mowing and gardening services, catered or convenience meals delivered to their home, a live-in nanny, custom-tailored clothing, inclusive resort vacations, etc.

Characteristics of a "delegator" in a financial planning relationship are as follows:

- desires a permanent, ongoing engagement with their advisor;
- is interested in, and willing to, *delegate management of their financial affairs* to their advisor;
- h*as money to invest* or immediate insurance needs; and
- provides their advisor with a *long-term source of revenue.*

While the above characterizations summarize the qualities of the client that most financial planners consider representative of their target market, this client is not the "typical" person.

The "typical" client may be described in broad terms as a "validator." While the validator's composite may include some of the characteristics described above, validators do not have the resources or the desire to outsource many of the day-to-day services that delegators tend to outsource. The validator client may prefer to do his own lawn mowing and garden care, cook large batches of food and divvy them up in the freezer as convenience foods, create a babysitting co-op for childcare, shop sales at department stores, and purchase off-the-rack clothing. This client may also enjoy camping instead of going on a luxury cruise, etc.

Characteristics of the "validator" in a financial planning relationship include:

- *needs professional advice*, *periodically*, but not on a permanent and ongoing basis;
- is *not interested in*, *or willing to*, *delegate* the management of their financial affairs to an advisor; is aware of, and *may be sensitive to, potential conflicts of interest*;
- is *cost sensitive*, but recognizes that there is no "free lunch" (they are willing to pay for value when they see it);
- has most of their investment assets in qualified retirement plans; *seek investment advice, but not ongoing management* of these assets; and
- seeks empowerment, education and *validation of their decisions*.

If we had to split the country into just two groups, most of America would fall into the

validator category, not the delegator category. I contend that most Americans do not meet the definition of the "traditional" target financial planning client—that is, the delegator described above. In the following chapters, we will explore the needs of the "typical" consumers—the validators—including what they want from a financial advisor, and the practice models that can profitably and effectively serve these clients.

CHAPTER 2
THE FORGOTTEN

MY BASIC PRINCIPLE IS THAT YOU DON'T MAKE DECISIONS BECAUSE THEY ARE EASY; YOU DON'T MAKE THEM BECAUSE THEY ARE CHEAP; YOU DON'T MAKE THEM BECAUSE THEY ARE POPULAR; YOU MAKE THEM BECAUSE THEIR RIGHT!

– Fr. Theodore Hesburgh, Former President,
University of Notre Dame

When we say, "Middle Market," what exactly do we mean? Is this term based on an income range, as in "middle income" Americans? Is it based on a *mindset*, as in "the middle class"? Is there a difference? Or is it something more?

While the financial services industry, economists, social scientists, and the public at large may differ in their definitions of what "Middle Market" means, when asked to describe their families' income, wealth and social status, most Americans will answer with the non-descriptive label of "middle class." But exactly what does this mean?

It may be easier to define what the Middle Market is *not*. The "semi-affluent" cohort, with net worth ranging from $1,000,000 to $10,000,000, or 9% of American households, may not fit at the far extreme. However, the phrase, "Millionaire is the New Middle Class" is catching on. The top 1%, those over 10 million dollars is not Middle Market. The 2017 Federal Poverty Guideline for a family of four is $24,600. This demographic makes up almost 13% of American households.

I define "middle America" as individuals who fall somewhere between the broad definitions of poverty and semi-affluent—strikingly, this is over 80% of all Americans. My definition utilizes net worth rather than just household income. Bert Whitehead, founder of the Alliance of Comprehensive Planners (a network of fee-only financial planners who target and serve the Middle Market) defines a "middle American" as "anyone who works for a living…or anyone who *has had* to work for a living." Both definitions clearly illustrate that "middle America" is mainstream America.

Based on after-tax, annual household income, most studies agree that the middle class is grouped around the national average (with the lower and upper ends of this range representing the 20th and 90th percentiles of the population), and accounts for 70% of U.S. households, with earnings ranging between about $13,000 and $100,000. This definition includes all sources of income. But annual income is just one criterion for defining "middle class." Other factors, such as educational level, occupation, family background, and social status should also be included.

Clearly, our concept of "middle class" and the statistical definition of "middle income" are different. While middle income may be statistically defined as the middle 70% of household incomes in the United States, keep in mind this is an average of *all* households in America regardless of geography, number of wage earners, members per household, or employment status.

But from community to community and from household to household, "middle income" implies different things. For example, in rural mid-America, a widowed retiree living on $48,000 per year, who owns her own home, and has a government pension and health insurance for life is financially secure. However, that same $48,000 annual income would barely sustain a family of four living in the San Francisco Bay area.

A young professional just graduating from college may technically earn a low-to-medium starting salary, but as he matures in his career this individual may make an income of $100,000 per year, or more. This person will likely see himself as middle- or upper-middle class based on his professional credentials and reputation, rather than his income.

Clearly, "middle class" is really a *mindset*. And I am convinced that it is a very healthy mindset for our financial planning clients to have. Individuals who think of themselves as middle class often have more realistic expectations for their financial lives. Fundamentally, they want the same things as their wealthier counterparts—that is, they want to enjoy life, provide for their families, and retire with financial security someday. And while the not-yet-affluent and never-will-be-affluent may have fewer options and strategies available to them than the wealthy, typically they also have less complex financial planning situations. With the right attitude, conviction and guidance, they can—and will—achieve their financial goals.

For building wealth, *income doesn't matter as much as how much you save and what you do with the wealth you have accumulated*. For that reason, I'd much rather work with a client who earns $50,000 a year and saves 15% of her income than a client who earns $500,000 a year and can't seem to make ends meet.

In their classic book, *The Millionaire Next Door*, Thomas J. Stanley, Ph.D. and William D. Danko, Ph.D. reported that most of the millionaires they profiled either *think* or *have thought* of themselves as middle class Americans. The majority of those studied live in middle class neighborhoods, drive middle class vehicles, and enjoy the same hobbies and activities (and sometimes even the same occupations) as their middle-class neighbors. While these individuals have accumulated net worths more than $1,000,000, their millionaire status has not changed who they are. *Net worth is only a measure of the success one has had in managing his or her money.*

Stanley and Danko found that affluent people typically follow a lifestyle that is conducive to accumulating money. They found seven common denominators shared by those who successfully build wealth. These are:

1. They live well below their means.
2. They allocate their time, energy and money efficiently, and in ways that are conducive to building wealth.
3. They believe that financial independence is more important than displaying high social status.
4. Their parents did not provide "economic outpatient care."
5. Their adult children are economically self-sufficient.
6. They are proficient in targeting market opportunities.
7. They chose the right occupations.

There are an estimated 115,000,000 middle income households in the United States in 2016. As we learned from the profiles in *The Millionaire Next Door*, most millionaires are "self-made" millionaires. Of the 115,000,000 middle income households in the United States, many of these individuals, with good financial management, will become the future "millionaires next door."

According to Stanley and Danko, millionaires, on average, invest nearly 20% of household realized income each year. Most invest at least 15%. Most don't become millionaires until they are 50 years of age or older. Most are frugal. Few could have ever supported a high-consumption lifestyle and become millionaires in the same lifetime.

The above research shows that regardless of income, individuals who (1) live well below their means, (2) allocate their time, energy, and money efficiently, and in ways conducive to building wealth, and (3) believe that financial independence is more important than displaying high social status can achieve financial independence. These sound like ideal characteristics in a financial planning client.

Very few practitioners in the financial services industry have elected to target clients with household incomes of $100,000, even though that group accounts for the highest 20% of household income in the United States. Competition for even higher earning clients is fierce. As minimum income levels are set even higher above $100,000, there are fewer and fewer households to target, and the market opportunity drops precipitously.

Where do you what to spend your energies in developing a clientele? Targeting the same market niche that every other financial advisor in the country is targeting? Or would you rather be developing a practice that can effectively meet the needs of those Americans who are currently being ignored or underserved by the financial planning community?

My ideal clients are the "Millionaires Next Door"—but 5 to 20 years *before* they reach their millionaire status. It is their attitude and

conviction that makes them my ideal clients. We will explore other characteristics that make these individuals the largest untapped market for financial advisors in America.

While middle income consumers are obviously the largest segment of the untapped market, there are other areas of mainstream America that have yet to be adequately served – beginners and validators.

As stated in Chapter 1, most financial advisors are looking for clients who are willing to delegate management of their financial affairs. However, as Stanley and Danko revealed, most millionaires make their own investment decisions. They employ the expertise of legal and tax professionals only when necessary, and few delegate management of their personal finances.

According to a survey published in 2001 by Forrester Research, 35% of all investors are "delegators," which means they choose to put their money in the hands of a professional. Another 55% are "validators" who want to control their own finances, but occasionally need an advisor's guidance." The remaining 10% are known as "do-it-yourselfers," but many do-it-yourselfers will also seek validation when needed. In the years since this survey was conducted, I suspect that there are even more "validators" and "do-it-yourselfers" now, due to the access to information and the evolution of the industry providing more direct-to-consumer offerings.

Robert Klapper, former Vice President of Schwab Advisor Source once stated:

> *"DO-IT-YOURSELFERS HAVE NO DESIRE TO SEEK INVESTMENT ADVICE. THEY LIKE BEING IN CONTROL. DELEGATORS ARE PEOPLE WHO WANT HELP MANAGING THEIR PORTFOLIOS, AND ARE WILLING TO GIVE SOMEONE ELSE DISCRETIONARY CONTROL. VALIDATORS FALL SOMEWHERE IN BETWEEN DO-IT-YOURSELFERS AND DELEGATORS. THEY KIND OF KNOW WHAT THEY ARE DOING, BUT FEEL THAT THEY COULD USE SOME OUTSIDE HELP, PERHAPS IN THE FORM OF A ONE-TIME FINANCIAL PLANNING CONSULTATION." OFTEN, "PEOPLE SHIFT BETWEEN THESE CATEGORIES AT DIFFERENT POINTS IN THEIR LIVES."*

Do-it-yourselfers have been empowered with information and resources that have enabled them to research and implement their investment strategies at a very reasonable cost. Many of these individuals have also learned some very important lessons over the last several years. Hopefully, they've learned that excesses in the marketplace will eventually be corrected, and that they can't predict the market. Do-it- yourself investors have discovered that often-times they do need assistance in determining the appropriate asset allocations and investment strategies to fulfill their financial objectives. However, this doesn't mean that they can't implement those strategies themselves using the low-cost techniques they've discovered over the past few years.

Thus, I argue that the do-it-yourselfer will remain a do-it-yourselfer and the validator will remain a validator. Validators have recognized the need for periodic financial guidance, but they'll continue to implement the recommendations of their advisors themselves. They desire to manage their own investment portfolios. They'll seek the advice of qualified consultants to validate their approaches, strategies and decisions *when they feel it is appropriate*.

Many do-it-yourselfers have recognized the need for professional guidance. Unfortunately, for many of these individuals there are very few palatable options available today for working with professional advisors because (as stated in Chapter 1) most financial advisors want to work with clients who are willing to *delegate* management of their financial affairs to advisors.

The **C**harles **S**chwab **S**tory

We can learn a great deal about the psyche of the individual investor by studying the evolution of the discount brokerage powerhouse, Charles Schwab & Company. The cover story of the May 27, 2002 issue of *Barron's* stated:

> *"WHEN WALL STREET PROS MUSE ABOUT THE FINANCIAL INSTITUTION OF THE FUTURE, THEY RARELY FAIL TO MENTION CHARLES SCHWAB. SINCE ITS FOUNDING IN 1974, THE BROKER HAS BEEN AT THE LEADING EDGE OF A SERIES OF INDUSTRY TRANSFORMING CHANGES. STARTING WITH DISCOUNT COMMISSIONS IN THE 'SEVENTIES, THE ABILITY TO TRADE DIFFERENT MUTUAL FUNDS IN ONE PLACE IN THE 'EIGHTIES, AND INTERNET-BASED TRADING IN THE 'NINETIES, SCHWAB SEEMED TO BLAZE THE TRAIL THAT COMPETITORS INEVITABLY FOLLOWED."*

Charles Schwab founded his company based on a strategy of being different. He wanted to be the "un-broker." His goal was to provide great service without pushing products or making specific investment recommendations. Do-it-yourselfers and many validators now had a broker who would provide them with just what they wanted and nothing more—great execution and service at a low cost.

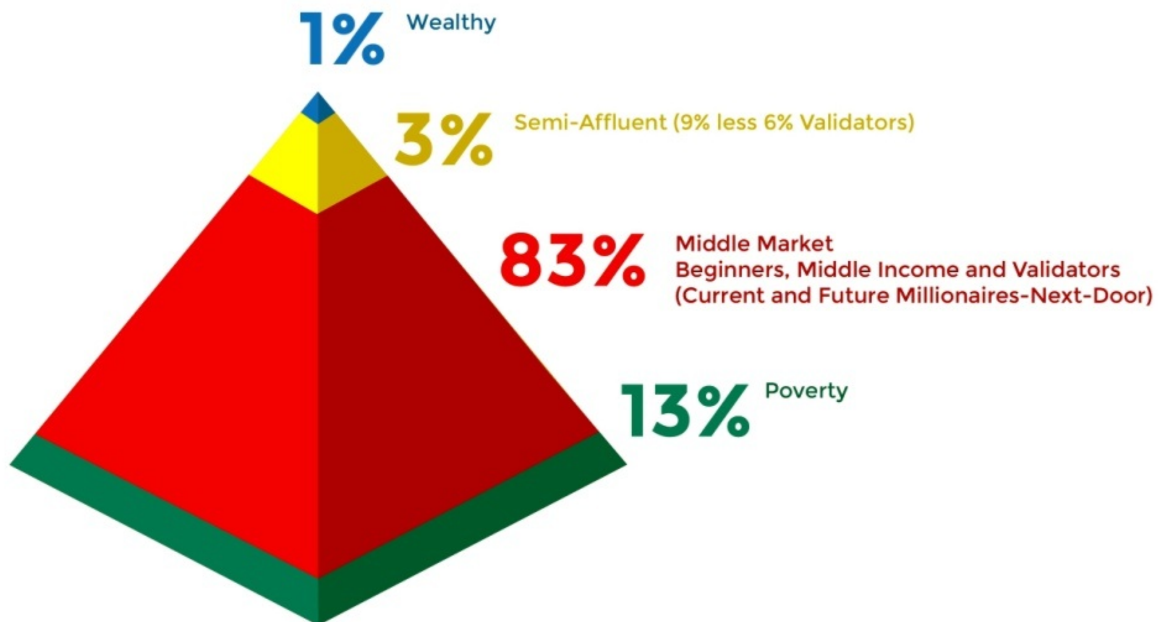
The bull market of the 1990's saw the addition of Schwab's no-fee OneSource program. Through OneSource, investors could consolidate holdings in many outside mutual funds in their Schwab account. New customers arrived in droves, but many of these investors were less sophisticated than the typical Schwab account holders. In response to the needs of its expanding customer base, Schwab has continually added services and tools to assist these less sophisticated investors while at the same time providing higher-end advisory assistance to its traditional clientele.

Schwab has enjoyed continued success in determining marketplace trends and capitalizing on those trends. In just 25 years after its founding, Schwab's market capitalization surpassed that of Merrill Lynch, the long- time industry leader. Daniel Leemon, Schwab's former chief strategy officer, attributed their success to the fact that they have extensive customer research, and he stated that, "Where we're going… is the direction in which our customers are leading us."

Taking a lesson from Charles Schwab & Company, we as planners should determine what the public wants from financial advisors and then deliver it to them. Remember, there are an estimated 115,000,000 middle income households in the United States. A good number of these "middle Americans" (and even some "millionaire-next-door" types) are "validators"—people who will seek out and pay for financial planning services and advice when needed to ensure they are making sound decisions. Of the 115,000,000 middle income households in the United States, many of these individuals, with your help and continued good financial management, will become the *future* "millionaires next door."

Instead of chasing the top 1% of the population and less wealthy delegators, as most financial planners and advisors are prone to do, why not go where the greatest market opportunities are? Do you want to spend your energies competing in an already crowded

marketplace (i.e., the affluent), targeting the same market niche that every other financial advisor in the country is targeting? Or would you prefer to develop a practice that can effectively meet the needs of those Americans who are currently being ignored or underserved by the financial planning community – and help *the rest* of America?



KEY DEMOGRAPHICS

In Chapter 3, we will explore the various financial planning service models now prevalent with Middle Market practitioners, and for which middle Americans these service models are best suited. As we will discover, there are service models that can effectively and profitably meet the needs of virtually all consumers. Then, in Chapter 4, we will provide reasons why you should consider catering to the Middle Market and discuss why you should become an “All-American Planner.”

CHAPTER 3
SERVING THE UNTAPPED MARKET

IT IS CHANGE, CONTINUING CHANGE, INEVITABLE CHANGE, THAT IS THE DOMINANT FACTOR IN SOCIETY TODAY. NO SENSIBLE DECISION CAN BE MADE ANY LONGER WITHOUT TAKING INTO ACCOUNT NOT ONLY THE WORLD AS IT IS, BUT THE WORLD AS IT WILL BE....

– Isaac Asimov

There are many styles, approaches, and practice models used in the financial planning industry today. As consumers' awareness of their need for financial advice has increased and continued to evolve, diverse financial advice delivery models and solutions have been created. All the delivery models discussed in this chapter are utilized in serving the Untapped Market. We will elaborate on the primary advantages and disadvantages of each model regarding their effectiveness in meeting the needs of beginning, middle income and do-it-yourself clientele. We will also explore growing trends in the industry and with respect to consumers.

Practice models are often defined by their compensation structure and the length, depth, and scope of the client engagement. We'll first start with the typical compensation structures and address the length and depth of the client engagement, including the pros and cons of each form of compensation.

The scope of the typical client engagement has been evolving. Early in my career, most of advice that was rendered centered around retirement planning, investment analysis, portfolio design and insurance needs. While these subjects are still very integral to the typical financial planning engagement, many clients today are also seeking guidance from their advisors in areas such as major purchase and financing decisions, education and career planning, alternative investment strategies, philanthropic activities, major home improvements, and extended family issues just to name a few. Clients' need for guidance covering this broad range of subjects has fueled the growth of delivery models that are flexible enough to accommodate the clients needs, as well as the advisor's desire and ability to profitably meet those needs.

Let's begin by exploring the primary compensation structures, which include: (1) commission-only; (2) fee and commission; (3) fee- offset; and (4) fee-only. For the sake of clarification, I wish to define these compensation structures first. I will then elaborate on the commonalities of the service models and the clientele served by each model. Primary advantages and disadvantages of each model in serving the Untapped Market will also be summarized.

Compensation Structures Defined

Commission-Only

Commission-only advisors receive all compensation from the recommendation and implementation of insurance and/or investment products. Sales licenses are required for investment and insurance products. Representatives are regulated by the Financial Industry Regulatory Authority (FINRA), and the state insurance commissioner due to their insurance licenses.

Fee and Commission (aka Fee-Based)

Planners are compensated directly by the client in the form of a fee to perform certain services, such as drafting a financial plan. They may also receive additional compensation from third parties, most commonly investment firms or insurance companies, for recommending and implementing those products. Sales licenses are required. A planner must be an RIA firm representative with their respective state or with the Securities Exchange Commission (SEC). Advisors are also regulated by FINRA because of their securities sales business, and their state's insurance commissioner.

Fee-Offset

Clients are quoted a flat fee for services to be rendered. Advisors may receive compensation from third parties for implementing investment recommendations. Commissions received are applied toward the client's total fee quote. If the quoted fee exceeds the commissions received the client pays the balance of the fee directly to the advisor. Sales licenses are required. The advisor must be an RIA firm representative with their state or the SEC. Advisors are also regulated by FINRA to sell investments, and by their state's insurance commissioner to sell insurance products.

Fee-Only

The CFP Board defines Fee-Only…if, and only if, all the certificant's compensation from all of his or her client work comes exclusively from the clients in the form of fixed, flat, hourly, percentage or performance-based fees.

National Association of Personal Financial Advisors (NAPFA) defines a **Fee-Only** financial advisor as one who is compensated solely by the client with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product.

No sales licenses are required under most circumstances because no new business is provided other than by charging fees only. Broker-dealers won't want these advisors on their roster, and inactive licenses expire within two years. The advisor must form a Registered Investment Advisor (RIA) firm and/or become a Registered Investment Advisor Representative (IAR) with another RIA firm registered with their state or with the SEC.

Service Models: Commonalities and Differences

Commission-Only

Decades ago, most financial services professionals were compensated exclusively by commissions generated from the sale of investment and insurance products. However, as discussed in Chapter 1, the financial planning profession is evolving toward more comprehensive and holistic personal financial planning and advice. Much of this subject matter falls outside of the insurance or investment arena. Professionals who offer more holistic or comprehensive advice have found it difficult to work within the constraints of a commission-only compensation structure.

In an excerpt from the *White Paper on the Regulation of Financial Planners*, Jonathan R. Macey states that a financial planner is "someone who prepares individualized analyses of financial position and family situation, who assists in determining economic goals, and who formulates plans for clients to achieve their economic goals. In short, a financial planner develops plans that address all financial aspects of the individual's life." Macey goes on to state that "[t]he breadth and scope of the advice given by financial planners is what distinguishes them from other, more specialized participants in the financial services industry."

Financial services professionals who are compensated on a commission-only basis most effectively are the "specialized participants" to whom Macey refers. I refer to them as specialists. This commission- only advisor's relationship with his or her client is generally transaction- based. When the client has a specific investment, insurance or financing need, the specialist implements appropriate products to fulfill specific needs and the engagement is complete.

Some commission-only professionals still provide broad financial planning advice, without a fee, but their ranks are shrinking rapidly. The commission-only advisor takes the risk that their recommendations to clients will be implemented through them and they will receive compensations on these sales, and then there's the whole fiduciary obligations of those rendering advice. How can we justify doing what's best for each client unless each client pays for our services directly?

Typically, specialists are happy to assist with a transaction, regardless if the client may not meet other advisors' account minimums or requirements. "Specialists" include financial services professionals who sell: life, health, disability and long- term care insurance products; annuities; stocks, bonds, mutual funds, other securities; and mortgages and real estate investments.

These specialists frequently work in tandem with holistic and comprehensive financial planners to assist clients in implementing their financial plans. I view the role of the financial planner as a generalist, orchestrating their clients' financial plan, much like a quarterback orchestrates his team on the football field. The quarterback needs a good team of specialists—running backs, tight ends, and defensive backs—to play the game. Specialists enable the financial planner to be the generalist, while they apply their specialized knowledge to assist clients in implementing specific recommendations provided by their financial planner.

Essentially, there are two types of activities that clients may need or request: advice and products or services. Both are separate and distinct, and both have value. The planner may do the analysis and plan formulation, and then recommend that the client either:

1. Implement the plan on his or her own;
2. Engage the planner's services to assist with the implementation of the plan; or
3. Work with specialists to implement the plan.

Commonly, a financial planner will work with a client to identify goals and develop a specific plan to meet those goals. At times, the planner may suggest that a client change their federal and state income tax withholding through their employee benefits office at their place of employment. This implementation step may be difficult to delegate; therefore, the client will usually take on this task. Other implementation steps may be more easily delegated to the financial planner, such as implementing the recommended portfolio changes. However, do you want to take on this task? Perhaps not. Some tasks are best implemented by the client, with the advice and guidance of the advisor. We must ask ourselves, as a fiduciary, who should provide these services, if needed? Certain implementation steps must be delegated, or outsourced, to specialists in and around the financial services industry (e.g., the recommendation to purchase an umbrella liability insurance policy or have estate planning documents drafted).

In practice, I find that a combination of the three implementation tactics is often required. Clients will have to do certain things themselves. With your guidance, they may also delegate some responsibilities to you. And generally, there are additional responsibilities that need to be fulfilled by other professionals.

Pros and Cons of the Commission-Only Service Model

There are distinct advantages to working in the commission-only model:

- Most notable is the significant revenue opportunity that can be achieved in a relatively limited amount of time.
- The initial training and licensing required to transact business can be obtained quickly.
- Minimal or no ongoing client service is required with transactional exchanges.
- Many financial services professionals prefer to specialize rather than maintain the broad knowledge base required of comprehensive financial planners.

The disadvantages of the commission-only model include:

- One is not compensated for all the advice they render and must be very cautious with fiduciary rules.
- Transactionally-compensated financial services professionals must continually market their products or services; thus, a significant amount of time must be devoted to prospecting for new clients on a regular basis.
- There is no compensation paid until a sale is made.
- "Cold calling" is the name of the game, at least initially. Successful sales professionals are gifted with these skills, or they must learn them.

- Most Americans are inherently distrustful of sales people.

For the financial services company representative, one of the biggest obstacles is the last point stated above—that is, most Americans are inherently distrustful of sales people. While most financial services professionals have their clients' best interests at heart, they may not have the capacity to advise clients on all areas of their personal financial situation—and they still must overcome the negative perception that goes along with being a sales person.

In addition, competition for investment assets and insurance business is at an all-time high. Consumers are bombarded with personal finance articles and advertisements highlighting insurance and investment options with low or no commissions. Other disadvantages are that the Untapped Market often provides limited opportunity for large initial sales and repeat business, and competition has also caused commission rates to fall.

Consumer finance journalists often see themselves as public defenders and they have drawn attention to actual and potential abuses in our industry. Journalists often make bold statements when writing for the masses. When writing an article on selecting a financial advisor, consumers are told to inquire about education, experience, credentials, and potential conflicts of interest.

Consider this excerpt from an article in the *Washington Post* written by personal finance columnist, Jane Bryant Quinn:

> *"THERE'S NOTHING WRONG WITH COMMISSIONS PER SE. IF YOU GET ADVICE, YOU SHOULD EXPECT TO PAY FOR IT. BUT COMMISSIONS PRESENT A CONFLICT OF INTEREST THAT YOU SHOULD KNOW ABOUT.*
>
> *A COMMISSIONED SALESPERSON, FOR EXAMPLE, MAY SELL YOU AN EXPENSIVE FINANCIAL PRODUCT WHEN THERE ARE CHEAPER ONES THAT WOULD DO A BETTER JOB. FEE-ONLY PEOPLE DON'T FACE THAT TEMPTATION—ALTHOUGH NOTHING GUARANTEES THAT THEY'LL GIVE YOU GOOD ADVICE.*
>
> *ALWAYS ASK PLANNERS WHAT THEY'LL EARN FROM YOUR BUSINESS, SO YOU'LL KNOW WHAT FINANCIAL SERVICES COST. COMMISSIONED SALESPEOPLE SHOULD BE WILLING TO SAY.*
>
> *IF THEY SAY YOU PAY NOTHING, WALK AWAY. THEY DO INDEED EARN SOMETHING, AND IT COMES FROM YOUR INVESTMENT IN VARIOUS WAYS. IF THEY'LL LIE ABOUT THAT, WHO KNOWS WHAT ELSE THEY'LL LIE ABOUT?"*

Because of the media's continued educational efforts, journalists and prospective clients are now often more comfortable with an advisor whose compensation has little or nothing to do with the implementation of recommendations.

Fee-and-Commission Based (aka Fee-Based)

As I mentioned before, advisors who are compensated only when they implement specific investment and insurance products may find it difficult to fulfill their fiduciary duty, if applicable, or hold themselves out as financial planners and offer holistic or comprehensive financial planning services. They generally limit their time to subjects for which they can be compensated. However, as Jonathan Macey articulated, "a financial planner develops plans that address *all* financial aspects of the individual's life" (emphasis added).

To ensure that adequate time and energy can be allocated to analyzing and providing recommendations for all aspects of a client's financial life, most advisors now charge fees in addition to receiving commissions.

Adding fee revenue to the compensation structure has not been a painless transition for many practitioners. For many years, clients received financial planning advice and did not pay a separate fee for that advice. The practitioner's compensation was built into the insurance premiums and investment products purchased by clients. Many clients may not have recognized exactly how, or how much, their advisor was being compensated because they did not actually write a check to the advisor. The actual cost was not plainly—or painfully—obvious.

However, with the proliferation of no-load mutual funds, low cost vehicles such as ETFs, discount brokerage firms, and the direct marketing of insurance products, the financial services industry has changed drastically over the last several years. Financial services companies are marketing directly to consumers. At the same time, there has been enormous growth in consumer finance articles, and blogs providing advice to clients regarding these products and services.

Consequently, consumers are now much more aware of the availability of no-load and low-load insurance and investment products. Traditional commission rates have been falling in response to these market forces. As a result, many financial planning practitioners have added fees to their compensation structures to:

1. offset declining commission rates;
2. enable their businesses to provide a steady level of service and advice; and
3. provide themselves with compensation for all areas of their advisory practice.

Currently, most financial planners are compensated through a combination of fees and commissions. However, fees represent the fastest growing portion of most practitioners' total compensation. The majority of fee revenue is charged in the form of a retainer based on a percentage of assets, which the advisor manages, or net worth. Some fee-and-commission-based financial planners charge a flat fee that is determined by estimating the number of hours required to prepare a financial plan. They also may receive commissions upon the implementation of their clients' financial planning recommendations.

This compensation model can be tailored to suit ongoing supervisory relationships or periodic engagements. An annual retainer fee is best suited for ongoing supervisory relationships, while the hourly or project- based fee is best suited for periodic or limited scope engagements. Of course, in addition to these fees, a fee-and-commission based advisor will also receive commissions on the sale of investment, insurance, or financing products.

Most practitioners prefer to work with clients on an ongoing, long- term basis because these long-term engagements provide a continual revenue stream for the advisor, which also relieves some of the marketing and prospecting burden over time.

With retainer clients, the financial planner is responsible on a continual and ongoing basis to provide oversight and advice regarding their clients' financial lives. This service can be very appropriate for clients wishing or needing to delegate the management of their

financial affairs to their advisor. Conversely, most of the Untapped Market – do-it-yourselfers, validators, and middle-income clientele (see Chapter 1) are not interested in or willing to pay for the services of a full-time financial planner. Furthermore, most consumers do not have enough complexity in their manageable investment assets to justify the fees charged for continual and ongoing investment supervision.

Some would argue that fulltime, active portfolio management provides little or no financial benefit to the client. How many people have such continual and ongoing comprehensive financial planning needs that require them to delegate these responsibilities? A periodic review of a clients' financial situation is a must for maintaining optimal financial health; however full-time advice is generally oversold and overpriced, in this authors' opinion. Why pay for a live-in nanny when you're simply needing a quality reliable childcare service?

Challenges of a **F**ee-and-**C**ommission **P**ractice

- To be able to accept commissions on the sale of insurance and investment products an advisor must become affiliated with a broker-dealer. Within our industry we have many registered representatives and agents who align with captive companies and major wire houses. However, most fee-and-commission-based advisors align themselves with one of the hundreds of independent broker-dealers.

Some of the advantages of going with an independent broker-dealer versus a major warehouse or captive company include: more flexibility in the products and services offered to clients; and more autonomy, while still having the back office, due diligence, compliance, technological, and marketing support provided by a broker-dealer. But these services don't come cheap. Registered representatives share a portion of all revenue generated (often 10-20% or more) with an independent broker-dealer.

Not only do these advisors share a substantial portion of their revenues with the broker-dealer with whom they are affiliated, but they also are under the regulatory jurisdiction of FINRA, which adds an additional layer of compliance regulation (which basically boils down to a lot of time spent doing the required paperwork to maintain compliance). Although you may be a gifted communicator and a skilled professional advisor, if you want to communicate to more than one person at a time, speak with the press, or deliver a workshop in a community, you are required to submit this material to your compliance/legal department, in advance, for their review and blessing. Many advisors who leave the jurisdiction of FINRA are pleasantly surprised to discover that their state or SEC compliance requirements merely require that they use good professional judgment, don't make false or misleading statements, or use client testimonials. Other than that, you are the professional—you be the judge. What a liberating concept!

- Most independent practitioners, charging both fees and commissions, seek long term contractual engagements with their clients. They typically offer this service on an annual basis. Clients retain the advisor for one year to provide them with financial planning and investment management services for a predetermined price. It often takes years for an advisor to establish and manage a profitable retainer-based practice. The labor involved in providing comprehensive financial planning and investment advisory services on an ongoing basis dictates that a typical financial planner may only be able to effectively serve 50-100 clients. These clients must be delegators, with needs that will allow the advisor to generate annual revenues averaging at least $2,500 and $5,000 per year.
- Most fee-and-commission-based financial advisors offer, or exclusively provide, their services on an annual retainer basis. The advisor working on retainer must be ready, willing, and able to assist clients on a continual and ongoing basis. Some of my colleagues pride themselves on being available to their clients 24 hours a day, 7 days a week. Not me! I have a firm belief that there is no such thing as a *financial planning* emergency. However, I do believe that there are a lot of *lack of planning* emergencies. If a client seeks out and follows the advice of a

competent advisor they will plan ahead for all of the desired, expected, and probable things that can and do come up in our lives. I admit that there are those rare occasions where something occurs that we did not plan for and, therefore, did not prepare for. However, identifying the most probable occurrences and the unbearable risks, we help our clients prepare through proper financial planning for those events. I don't want to be put in the role of financial fire fighter. Planning implies thought and action taken in advance of a need. Given my belief that there is no such thing as a financial planning emergency, clients did not have access to me 24 hours per day, 7 days a week— and everything has worked out just fine.

- Providing retainer services can put substantial pressure on the advisor when several clients need the advisor's attention at the same time. The advantages of continual and ongoing revenue can, at times, be outweighed by the continual and ongoing responsibilities of servicing retainer clients. As a result, most practitioners offering retainer services have found it necessary to find, hire, employ, train, and manage support staff.
- Many consumers are reluctant to enter into long-term contractual arrangements for financial planning services. Their reluctance might be due to unfamiliarity with, or distrust of, the advisor and/ or possibly benefits of financial planning. They might question the value of professional financial advice. Their reluctance might be the result of the long-term contract itself. Some people are "tire kickers" – that is, they want to have professional experience with the advisor before turning over control of their investment portfolios to a planner. Others want periodic or as-needed advice, and they'll never be interested in turning over control or entering into a retainer arrangement.

Ongoing or Project-Based Services

All consumers have questions about their personal finances at one time or another. For delegators who can afford and justify the expense of an on-going financial advisory service, there are those practitioners who offer ongoing retainer engagements. However, for the multitude of Middle Market and do-it-yourself type consumers who are not the target clients for the retainer model, there are advisors who offer their services on a periodic or as- needed basis.

Few financial planners limit their practices to periodic or as-needed advice; therefore, they must balance the demands and responsibilities of managing retainer engagements while appropriately servicing their periodic or project-based engagements. I advocate using *either* the retainer service model *or* the as-needed service model, rather than trying to provide both. The clients served, the services provided, the marketing functions, and the administrative responsibilities can be unique to each model. In my experience, solo practitioners who focus on working with clients exclusively on a retainer or a project basis will be most efficient and profitable. The dual service offering is more likely to be successful in larger practices employing multiple professional advisors and a support staff.

The project-based advisor may enter into 100 or more engagements per year. I refer to these projects as "engagements" rather than "clients" because, over time, the practitioner will be re-engaged to provide services to clients they have worked for in the past. Services are provided on an as-needed basis rather than on a continual and ongoing basis. Clients are responsible for contacting the advisor with questions or service issues for which they need the advisor's guidance. However, it is highly recommended that clients meet with their advisor periodically for a "check-up" to maintain their financial health, just as individuals should get a regular physical and dental check up to maintain their physical and dental health.

Project-based advisors do not need to require minimum revenues per engagement; this greatly expands their opportunity set or prospective client base, while still supporting our professional and regulatory standards. However, given that no minimum revenue per client is required, the advisor must generate a significant volume of engagements – new and repeat – every year. Initially, the marketing activities required to develop this practice model will be substantial. However, referrals are also much more plentiful for the limited-scope, project-based advisor, then the retainer-based advisor with long-term contracts and more comprehensive fees and services. Established project-based financial planning practitioners receive most of their new business by referrals from existing clients, and word of mouth in general. Because the limited-scope, project-based advisor has worked with substantially more people as clients then the retainer-based advisor, they have more potential referral sources.

I have also noticed that clients of retainer-based advisors may be reluctant to refer their advisor to others. This reluctance may be a result of the minimum fees imposed by the advisor. Clients may be concerned that those whom they would refer may not qualify for, need, or elect to pay for the services they themselves deem appropriate and justified. A few clients might be concerned that they could offend someone by even suggesting that they need a full-time financial advisor.

Again, the media has played a large part in increasing consumer awareness of the costs associated with employing a full-time financial advisor and paying for ongoing services. Consider this excerpt from an article in the *Wall Street Journal* by popular personal finance columnist and author, Jonathan Clements entitled, "Some Advice Worth Paying For: Most Planners Cost Too Much."

> *"YOU NEED A HAND, BUT YOU DON'T WANT TO PAY AN ARM AND A LEG.*
>
> *THE BULL MARKET OF THE 1990S GAVE MANY FOLKS THE CONFIDENCE TO INVEST ON THEIR OWN. NOW THAT CONFIDENCE HAS COLLAPSED ALONG WITH SHARE PRICES, BATTERED INVESTORS ARE LOOKING FOR HELP.*
>
> *BUT EVEN IF YOU HIRE A TALENTED ADVISOR, YOU COULD DO MORE HARM THAN GOOD, BECAUSE THE COST OF THE ADVISOR MAY OFFSET ANY IMPROVEMENT IN YOUR PORTFOLIO'S PERFORMANCE.*
>
> *INDEED, IF YOU'RE GOING TO USE AN ADVISOR AND STILL EARN HEALTHY GAINS, I BELIEVE YOU NEED TO STICK WITH ONE OF THE LOW-COST ALTERNATIVES. TRUE, YOU MAY MISS OUT ON THE HEAVY- DUTY HANDHOLDING THAT TRADITIONAL ADVISORS OFFER. BUT GIVEN THE COST SAVINGS, THAT SEEMS LIKE A SMALL PRICE TO PAY."*

Mr. Clements then goes on to list several low-cost options for obtaining financial planning services and/or investment management and advice.

In general, and as a tie-in to Mr. Clements' thoughts, I believe that the limited-scope, project-based advisor incurs less resistance securing engagements and referrals since this type of advisor requires less commitment on the part of the client. A consumer can hire the advisor for a limited engagement and, if satisfied, they can re-engage him or her for additional services as needed. In a project-based scenario, the client does not need to feel that he or she is captive to the advisor's services. It's like visiting the dentist. If the dentist does a good job and the client has grown to like and trust him, the client will return periodically and re-engage his services. Clients who are happy with the service they have received will tell their friends about the professionals on their service team.

Project-based advisors can tailor their services to the specific, immediate needs of the client. They cater to beginners, middle income individuals, do-it-yourselfers, and validators desiring periodic, as-needed advice.

Most practitioners embracing this compensation and service model provide specific investment advice, but few of them manage money. This may appeal to the consumer who is either unwilling, or reluctant, to delegate the management of their investment portfolio. I've become quite amazed at how common this issue is for some people.

However, fee-and-commission-based advisors, regardless of whether they work under a retainer or on a project-basis, are still receiving a portion of their compensation from commissions. Thus, they must still overcome the inherent distrust many consumers have of the advisor whose compensation is directly impacted by implementation decisions.

Pros and Cons of Broker-Dealer Affiliations

Commission-and-fee-based advisors are typically independent financial services entrepreneurs who affiliate with independent broker- dealers (e.g., LPL Financial, Ameriprise Financial Services, Raymond James Financial Securities, Commonwealth Financial Network) for back office and corporate level support such as:

- securities and insurance analysis/recommendations;
- training and conferences;
- marketing support and ideas; and
- securities, custody, and transaction clearing services.

These *independent*, fee-and-commission-based advisors typically operate their own practices. To provide fee-based services to their clients, they need to be registered with an investment advisory firm (RIA) with their state's Department of Corporations or the Securities and Exchange Commission (SEC). Alternatively, they may be required to register as investment advisors through their broker-dealers' SEC registration.

To offer clients a range of insurance, securities, and investment vehicles and accept the corresponding commissions, these fee-and-commission-based advisors must also pass various securities and insurance sales licensing examinations and become "registered representatives" and "agents" of their broker-dealer and/or insurance company or agency. The broker-dealer screens and approves for sale a host of products (typically, there are ample choices, but not the whole range of the marketplace). The broker-dealer commonly will require a sales or production minimum that must be satisfied to maintain registered representative status.

Once the client has purchased the recommended product, the planner's commissions are debited from the client's total investment or insurance premium. The investment or insurance company pays the commission to the broker-dealer or agency, who then passes down a portion of the commission to the registered representative. The percentage of the commission and/or fee that the broker-dealer pays to their registered representatives is called a "payout."

Because broker-dealers are exposed to liability for the communications and activities of their registered representative, these advisors are required to run all their advertising, marketing materials, and client communications through their broker-dealer's compliance department for review, comment, and approval. Most broker-dealers also require advisors to pay a portion of their *fee* revenue back to the broker-dealer for supervisory expenses. In addition, there are branch office inspections by the broker-dealer's compliance department, in addition to any other inspections and compliance audits that proceed from routine or other triggers from the SEC or the state.

Clearly, the requirements for being a registered representative of a broker-dealer include both advantages (e.g., back office support, product selection, compliance supervision) and disadvantages (e.g., corporate culture, sales/production quotas, "selling away" prohibitions, compliance burdens, and revenue sharing). These are the trade-offs that exist if the advisor wishes to provide both, fee services and to accept commissions

when the recommendations are implemented.

Fee-Offset

In theory, this compensation structure seems like the best of all worlds. The commissions received upon the implementation of investment advice are applied toward the total fee for all services rendered. However, the apparent simplicity of this model breaks down when you get into the details. It may be one of the most equitable compensation structures, but it can also be very difficult to explain to clients. Commissions received from the sale of insurance products may not be “rebated” to the client. Exact “payouts” (commission received by the advisor) on many investment products cannot be perfectly determined in advance. Therefore, upon the initial engagement, the client does not know the amount for which they might have to write a check.

The few financial planners who work on a fee-offset-basis generally work with clients on a retainer basis when managing money. They may also provide project, or as-needed, advice on a very limited basis.

As explained above in the fee-and-commission-based section, these individuals are usually independent financial services professionals on the financial planning side of their business, and registered representatives with one of the independent broker-dealers on the product implementation side of their business.

The major disadvantage of this business model (in addition to needing to overcome potential objections from clients concerning the objectivity of commissions) is that it is a complex compensation structure that may be difficult to explain to clients.

Fee-Only

There are as many ways to determine a fee as there are ways to receive a commission. Planners charging fees may impose a time-based fee or an asset-based fee. Currently most employ a formula approach, such as 1% of assets under management, 0.75% of net worth, 2% of income, or a combination of the above. Commonly, fee schedules decline as assets, net worth, or income rises. Occasionally, fee schedules decrease, and then level off over time to represent the additional work involved in the early years of the relationship.

Retainers have also gained popularity among financial planners as a more holistic way of determining fees then based on Asset Under Management (AUM). However, a retainer, taken very literally means that the advisor will make themselves available to their client for *whatever* personal financial need they may have during a specific contract period. Many advisors call their service a retainer, when it is much more of a flat-fee for specific services to be rendered over a specific period. I think flat-fees make a lot of since, whereas I’m not personally drawn to retainer engagements.

Determining the appropriate fee for services to be rendered over time can be quite challenging. No one formula will be equitable for all clients. However, fee schedules do have their advantages. During the initial meeting with a prospective client, the practitioner will have access to the information required to plug into the formula and quote a fee. The quoted fee may or may not be representative of the complexity of the client’s situation or the amount of time required to prepare the plan. The advantage is the simplicity of coming

up with a number/quote because it's a formula and the planner has the variables that go into the calculation.

The fee-only approach has earned praise from the American Association of Retired Persons (AARP), the Consumer Federation of America, and leading journalists, all of whom regard the fee-only structure as being good for consumers. Quotes from journalists include:

> *"FINANCIAL PLANNERS WHO TAKE COMMISSIONS HAVE A BUILT-IN CONFLICT OF INTEREST…EVEN WITH DISCLOSURE, MY CHOICE WOULD BE A FEE-ONLY PLANNER."*
>
> **Jane Bryant Quinn, *Newsweek***

> *"START WITH THE GENERAL PRACTITIONER…A FINANCIAL PLANNER (WHOSE) COMPENSATION SHOULD BE FROM FEES ALONE."*
>
> **Money**

> *"THE MOST IMPORTANT MATTER IS HOW THE PLANNER IS COMPENSATED. HIRE THE PLANNER WHO…HAS NO FINANCIAL STAKE IN (YOUR) INVESTMENTS."*
>
> **Forbes**

Fee-only planners pride themselves on minimizing conflicts of interest regarding compensation. However, opponents of the fee-only method of compensation argue that basing one's fee on the percentage of assets under management will motivate the advisor to take control over as many of the client's assets as possible. I agree that this is a legitimate conflict. For instance, a planner could face the dilemma of providing objective advice regarding the merits of taking a rollover distribution from a qualified plan, funding a Section 529 college savings plan, or paying off one's mortgage with investment assets. This decision will impact the advisor's compensation just as much as the advisor who is compensated by commissions upon the sale of an investment or insurance product. And, does everyone you want to work with need ongoing portfolio management services. If so, as a fiduciary you must ask yourself, am I the most appropriate provider of this service for the price?

While the media has been a big proponent of fee-only planning in recent years, they have also voiced their concerns about the value of assets under management scenario. Consider these excerpts from respected consumer journalists:

> *"FOR YEARS, FEE-ONLY FINANCIAL PLANNERS HAVE DISPARAGED COMMISSION-CHARGING BROKERS AND PLANNERS. THEIR ARGUMENT: COMMISSIONS GIVE ADVISORS AN INCENTIVE TO TRADE CLIENTS' ACCOUNTS AND TO RECOMMEND THOSE PRODUCTS THAT PAY THE FATTEST COMMISSIONS.*
>
> *BUT AS MUCH AS I AGREE WITH FEE-ONLY FINANCIAL PLANNERS, THESE FOLKS HAVE A PROBLEM OF THEIR OWN. THEY ARE JUST WAY TOO EXPENSIVE. FEE-ONLY ADVISORS TYPICALLY SNAG 1% OF A CLIENT'S ACCOUNT EACH YEAR, EQUAL TO $10,000 ON A $1 MILLION PORTFOLIO.*
>
> *MOREOVER, THESE ADVISORS OFTEN RECOMMEND MUTUAL FUNDS, WHICH MIGHT CHARGE 1% IN ANNUAL EXPENSES, BRINGING THE TOTAL COST TO 2% A YEAR. RESULT? IF YOUR PRE-COST ANNUAL RETURN IS 8%, YOU WILL LOSE A QUARTER OF YOUR GAIN*

TO INVESTMENT COSTS."

Jonathan Clements, Wall Street Journal

"NO-COMMISSION ADVICE IS A GOOD IDEA, BUT IT'S POSSIBLE TO OVERPAY A FEE, TOO. MANY PLANNERS CHARGE 1 PERCENT OF THE VALUE OF YOUR ASSETS A YEAR: $5,000 A YEAR ON A $500,000 PORTFOLIO, FOR EXAMPLE. IF ALL YOU ARE GETTING IS ASSET ALLOCATION, …1 PERCENT IS PRETTY DARNED PRICEY."

Linda Stern, Newsweek

I have yet another concern with respect to basing fees on a percentage of assets under management. If we tie our fees to investment portfolios, we are sending the message to clients that we are money managers instead of financial planners. Comprehensive financial planners must have knowledge of all subject matter relating to personal finance. Many financial planners don't have the time or expertise to successfully compete against professional money management firms regarding the management of investment portfolios.

Most financial advisors who provide asset management services also perform labor-intensive portfolio accounting functions for their clients. They often produce quarterly investment portfolio performance reports. Along with these performance reports, advisors include their quarterly invoice. Quarter after quarter clients receive the message that they are paying for investment advice, rather than for financial planning services. As financial planners, we educate our clients that our objective is to assist them in achieving their financial goals over the long term. Yet quarter after quarter, we focus their attention on the short-term performance of their investment portfolios.

Fee-**O**nly, **H**ourly or **F**lat-**F**ee

Some fee-only financial planners charge a flat fee for a specific project to be performed. Others charge by the hour. Most hourly planners provide clients with an estimated fee range when quoting fees. Project- based and hourly fee models can provide a very equitable engagement for both the client and the advisor. However, the practitioner must have experience and full knowledge of the scope of the project to accurately estimate the amount of time required to complete the project. Practitioners new to hourly billing often underquote because they do not adequately estimate the complexity of the case or the amount of time that will be involved. On the other hand, the engagement rate for new practitioners is often very high, and this provides them with a lot of experience. Experience is, of course, how we all learn and grow. Presuming the advisor accurately tracks and monitors her time, she will become proficient at estimating and quoting fees under the hourly model.

In recent years, the media has been advocating fee-only *hourly* planning as a cost-effective option for the Middle Market and do-it- yourselfers. Consider these article excerpts:

> *"…A NEW BREED OF PLANNER OFFERS SOPHISTICATED, À LA CARTE ADVICE AT REASONABLE HOURLY RATES, ALLOWING EVEN NEW INVESTORS THE OPTION OF LOW-COST ANSWERS TO SPECIFIC QUESTIONS."*
>
> **Mary Rowland, MSN Money Central**

> *"I THINK HOURLY PLANNERS MAKES A LOT OF SENSE FOR BEGINNERS AND OTHERS WHO CAN'T AFFORD THE UP-FRONT COST OF A COMPLETE PLAN, AS WELL AS FOR DO-IT-YOURSELFERS AND OTHERS WHO WANT TO GET A FINANCIAL EDUCATION."*
>
> **Mary Rowland, *Bloomberg Wealth Manager***

> *"[F]INANCIAL ADVISORS ARE A QUIRKY BUNCH, AND THEIR INVESTMENT RECOMMENDATIONS TEND TO REFLECT HOW THEY'RE COMPENSATED, WHAT THEIR BACKGROUND IS AND WHAT SORT OF A COMPANY THEY WORK FOR. … I WOULD SHY AWAY FROM USING COMMISSIONS TO COMPENSATE A BROKER OR PLANNER. … MANY BROKERAGE FIRMS AND FINANCIAL PLANNERS WILL INSTEAD MANAGE A CLIENT'S ACCOUNT FOR AN ANNUAL FEE, EQUAL TO MAYBE 1% OF THE ACCOUNT'S VALUE. … IF YOU PAY A PERCENTAGE OF ASSETS, YOUR ADVISOR NO LONGER HAS AN INCENTIVE TO CHURN YOUR ACCOUNT OR PUT YOU IN INVESTMENTS THAT GENERATE THE HIGHEST COMMISSIONS. THESE FEE ARRANGEMENTS, HOWEVER, DON'T ELIMINATE ALL CONFLICTS OF INTERESTS. … IF ADVISORS CHARGE A PERCENTAGE OF ASSETS, THEY CAN SEE THEIR INCOME SLASHED IF CLIENTS MOVE MONEY INTO 529 COLLEGE-SAVINGS PLANS OR BUY AN IMMEDIATE ANNUITY. … WITH AN HOURLY FEE, YOU ELIMINATE VIRTUALLY ALL CONFLICTS OF INTEREST. … IF YOU CAN FIND AN ADVISOR WHO CHARGES JUST AN HOURLY FEE, THAT MAY BE THE BEST WAY TO GO."*
>
> **Jonathan Clements, *Wall Street Journal***

> *"THE PAST DECADE HAS SEEN A BIG PUSH AMONG PLANNERS TO TARGET HIGH-NET-WORTH CLIENTS. THEREFORE, MANY PLANNERS HAVE A MINIMUM ASSET REQUIREMENT*

– TYPICALLY, $100,000. CONSIDERING THAT U.S. HOUSEHOLDS HAVE A MEDIAN NET WORTH OF $40,000, THAT LEAVES A LOT OF FOLKS IN THE COLD. LUCKILY, MIDDLE CLASS CLIENTS HAVE ALTERNATIVES …PLANNERS WHO WORK PRIMARILY WITH THE $100,000-AND-UNDER INCOME SET, CHARGING HOURLY FEES FOR PERIODIC ADVICE."

Smart Money

Trends in Fee-Only Planning

All in all, fee-only financial planning is the fastest growing compensation model in the planning profession. The majority of fee- only financial planners also manage money on a continual and ongoing basis for their clients. There are also many fee-only advisors who manage money exclusively.

The FPA once indicated that approximately 20% of their members are fee-only advisors. Unfortunately, we have found no statistics on the actual number of fee-only *financial planners*. NAPFA is the largest group of purely fee-only practitioners in the country, with approximately 3000 members. Their definition of “fee-only” (stated above) drastically limits the number of potential members. One of the criteria for membership in NAPFA is that all compensation must be paid directly by the client. No third-party compensation is permitted. Also, to become and remain a NAPFA Registered Financial Advisor one must continue to offer and provide, when appropriate, comprehensive financial planning services to their clients. Therefore, fee-only investment managers who do not offer financial planning services to their clients are not eligible to become a NAPFA Registered Financial Advisor.

The statistics provided by the FPA (indicating that 20% of their members are fee-only) probably included fee-only money managers and fee-based financial planners who offer a fee-only option. Financial planners who offer both a fee-only option and fee-and commission-based services are tailoring their compensation structures to satisfy the needs and desires of clients. However, I feel the most significant reason for charging on a fee-only basis is the removal of potential conflicts of interest related to compensation, and to be compensated in fulfilling our fiduciary duties to our clients. Therefore, offering fee-only as an *option*, rather than *exclusively*, leads some clients to question the objectivity of the compensation structure as well as the recommendations.

Consumers engage financial planners to help them simplify their financial lives and attain their financial goals. They want trusted advisors who will listen to them, objectively evaluate their situations, and develop affordable and easy to follow financial plans. Some clients need and want to delegate the implementation and monitoring responsibilities of their financial plans and investment portfolios to their advisors. However, many clients, particularly those in the Middle Market, do not have financial situations complex enough to justify paying for this full- time oversight. Unfortunately, there are not nearly enough competent, objective advisors offering their services on a periodic or as-needed basis to meet the demands of the public.

The press also carries the fee-only torch. Over the last few years, the publishers of *Worth*, *Barrons* and *Medical Economics* magazines have produced lists of top financial advisors in the country. Most of the advisors named in these publications are fee-only. I am not implying that these lists are scientifically compiled or in any way exhaustive. However, consumers are obviously getting the message that most of the best financial advisors in the country work exclusively on a fee-only basis.

Many fee-only financial planners select this compensation structure for philosophical reasons. Others feel that they have an overwhelming marketing advantage by working on a fee-only basis. We all know outstanding financial advisors who are compensated in

many ways. But, it's becoming apparent that many consumers seeking a financial planner are actively seeking out fee-only advisors. All financial advisors must market their services and themselves. However, most fee- only planners I know report that their marketing activities are minimal; instead, consumers are seeking them out.

For years I've received phone calls and e-mails from consumers stating they sought advice from a fee-only advisor only to discover that they did not meet the advisor's client profile. Middle Market consumers frequently do not have adequate assets or income, or sufficiently complex financial situations to justify the minimum fees imposed by many fee-only advisors. These consumers have read the same publications discussing the advantages of working with a fee-only advisor as their affluent counterparts. Unfortunately, there are not enough fee-only financial planners offering services on a periodic or as-needed basis to meet the needs of the public. Herein lies the greatest opportunity for reaching these "untapped opportunities."

For our industry to truly evolve into the profession of financial planning, I feel we must separate our compensation from the implementation of insurance and investment products *and* the investment portfolio. Our still-emerging profession must develop practice models that will enable *all* consumers to benefit from professional financial advice.

Beginners, middle income and do-it-yourselfers are seeking out fee-only financial planners and this trend will continue. However, most do not qualify for, will not justify the costs of, and possibly don't need the services of a full-time financial advisor. But *all* people periodically have questions about their personal finances and need access to competent, objective advisors who can work with them on their terms.

These are the reasons I so strongly advocate the fee-only, hourly, as-needed service model. To me, it is simply the most effective and equitable way to tailor your fees to the needs of the client and serve people at all levels of income and net worth, while meeting the widest variety of client needs.

Whether or not you choose to serve your clients on a fee-only hourly basis as I advocate, my primary mission in writing in this book is to increase mainstream America's access to competent, objective financial advice that is tailored to meet their specific needs and budgets. I hope to inspire other practitioners to become "All-American Planners." In the following chapters we will explore ways to efficiently—and profitably— serve this Untapped Market.

In Chapter 4, we'll explore whether serving the Middle Market and do-it-yourselfers is an appropriate fit for you. I'll also present reasons why more financial planners are choosing to cater to this appreciative, and still virtually untapped, Middle Market. We'll get into "Debunking Myths" regarding serving these clients in Chapter 5.

CHAPTER 4
WHY YOU SHOULD CONSIDER THIS OPPORTUNITY

MY BASIC PRINCIPLE IS THAT YOU DON'T MAKE DECISIONS BECAUSE THEY ARE EASY; YOU DON'T MAKE THEM BECAUSE THEY ARE CHEAP; YOU DON'T MAKE THEM BECAUSE THEY ARE POPULAR; YOU MAKE THEM BECAUSE THEY'RE RIGHT!

– Fr. Theodore Hesburgh, Former President,
University of Notre Dame

There are tons of reasons why I advocate that more financial planners serve this Untapped Market on an hourly, fee-only, as-needed basis. Strategic business factors include:

Vast Opportunity: The truly untapped opportunities in financial planning today are in the Middle Market. Most of the American population – 70%- 88% of all Americans – falls within the Middle Market definition, they need periodic financial advice from a trusted advisor, and they are willing to pay for it. There is no competition - other than a few large financial sales organizations - and we have just discussed the inherent limitations with that compensation model.

Ease of Marketing: Marketing efforts are aided greatly by the fact that the media loves to work with and quote fee- only financial advisors who relate well with and cater to their readers (most of whom are Middle Americans). Referrals from other advisors are another major benefit in structuring your service model to complement, rather than compete. Independent financial advisors who target the affluent delegator type exclusively can become your best allies and referral sources. We are a helping profession. We want to be of assistance, if not personally, to at least be able to refer to another trusted advisor who may be a better fit for the individual.

While the strategic business factors noted above are important, the most important qualities that most practitioners cite as the reasons they serve middle market clientele on an hourly, as-needed, basis is because of the:

Professional Satisfaction: The sense of satisfaction knowing that you have made an enormous contribution to someone's life who might not otherwise have had any comparable options is the greatest honor and responsibility I can imagine of any professional.

Personal Satisfaction – Work and Life Balance: What a concept? After 11 years in financial planning I finally discovered the most effective way for me to design my work life to complement my personal life. I needed more control over my work load, my service offering, delivery methods, and my calendar. Rather than dealing with "financial planning emergencies" or the responsibilities of ongoing supervision I needed to control my work schedule. I wanted to be able to work with anybody I felt I could help, so long as they were willing to pay my hourly rate. If I elected to spend the summer in Alaska on a nature expedition – I could. Once my client projects have been fulfilled, I am done.

I also thought I wanted to work solo. (I later discovered that was not the case, but I did enjoy the option.) Many independent planners enjoy working solo and possibly from a home office. As I mentioned earlier, I feel that to live up to our fiduciary responsibly, regarding most effectively serving clients on a continual and ongoing basis, we are well advised to build a business employing other professionals and support staff.

You Can Work With Any Kind of Client and Get Paid for All That You Do _

The following are examples of clients in very unique situations who I was able to help and be fairly compensated. The purpose of these examples is to illustrate how charging hourly fees is a viable and very effective way to work with a huge untapped market; beginners, mainstream Americans, wealthy validators and do-it-yourselfers.

The first untapped market segment is what I call, "Beginners." All too often we think of beginners as young people just starting out in the accumulation stage of life, but unfortunately, millions of Baby Boomers and Gen Xers are in the exact same situation. They have not yet begun to seriously accumulate assets. Yet they hope to retire in their 60s.

My ultimate "Beginner" was a 17-year-old son of clients. The young man approached his parents asking for their support in opening an online brokerage trading account. He had $1,800 to invest. His parents made a deal with him that they would support his request if he spent one hour with me first. Of course, his mom and dad paid my $180 fee for this one-hour consultation. Within an hour I had this young man convinced that a Roth IRA was the only way to go. And instead of purchasing individual high-tech stocks, he decided to invest in the NASDAQ 100 Index (QQQ). I introduced him to the NASDAQ Heat Maps and he was jazzed. This was one of the most enjoyable engagements I've ever had, and it may just have been the most rewarding $180 that couple may spend.

Once again, "Beginners" can be of any age. Although my story was about a 17-year-old, it is still an excellent illustration of the kind of things we can do for clients in just one hour. And think about how many questions the average Baby Boomer has regarding their money life. The opportunities are endless. Our biggest challenge is getting people to recognize that they have questions and letting them know how to find professional financial advisors who are willing and able to serve them.

The next untapped market, I'll refer to as those with "Modest Income". One of my earliest engagements in my hourly-only practice involved a Baby Boomer couple. Their situation was not good, but also not complicated. Ten years prior, they bought a seller financed home. At the time they purchased the home these clients had very poor credit. However, that was 10 years before; their credit had risen to above-average. They were short on cashflow each month. My initial reaction was that they would be best served by refinancing their mortgage. But, it was more than that. They lived in a very tiny house, with no garage and always longed for a larger, yet modestly priced home, with a garage and workshop, and some acreage. Amazingly, their tiny home in the city was worth considerably more than they knew, and because their current high interest rate mortgage made their monthly payments extra high, they could have their new home, with no additional monthly cash outflow. We realigned where their money was going. Instead of to the mortgage holder, their money went into their new "dream home." My services cost these clients approximately $750, and we were done…with that engagement. And I was paid for all my time.

By far, the largest segment of the untapped market for financial advisors is Middle-Income individuals and couples. I'm a big fan of the book, *The Millionaire Next Door*.

The authors illustrate in this book that most millionaires were once middle-income wage earners and most still consider themselves middle-income. It may just be that middle-income frugality caused these individuals to become millionaires. My perfect client was the millionaire next door, 5 to 20 years before they achieve their millionaire status.

One couple that I worked with since before I opened my hourly- only practice was a middle-income couple, with both spouses employed by the government. They were diligent savers, contributed regularly to their TSA accounts, and made annual IRA contributions. They helped put their children through college. They sought my advice to validate what that they were saving enough, in the right places, and if they were missing out on any obvious opportunities. Because the overwhelming majority of their investment assets were in the government-sponsored retirement plans, with very limited investment options, I did not feel that it was prudent for them to hire me to manage their very low maintenance portfolio on an ongoing basis. However, the couple and I both agreed that periodic checkups would be extremely prudent. We scheduled a regular financial checkup for every six months and the couple called me if they had any questions or concerns in the interim. Their initial review cost approximately $1,500. Subsequent checkups typically ran approximately 2 to 3 hours and therefore cost about $360-$540 each. At my hourly rate at the time, that equated to approximately $1,000 per year. Even phone calls, e-mails, follow-up questions – everything – was charged in six-minute increments. All work is billable. Regardless of the subject matter, whether it was running a retirement scenario, providing advice regarding financing a vehicle, or whether to sell their rental property, I was paid for my professional financial advice and time strictly on an hourly basis.

Another large untapped market segment is the “Do-it-Yourselfer” or “Validator.” Most traditional financial advisors are not interested in working with a prospective client who is only looking for a one-time review or a limited engagement. Traditional advisors generally require, or at least desire, ongoing revenue streams – from all their clients. Many advisors require comprehensive financial planning, including ongoing portfolio management. Full service – fully outsourced - that is what we did at my prior firm. There is nothing at all wrong with that service model. There are clients who absolutely need and can afford that level of service.

However, I find that a lot of people, who could benefit from and afford that level of service, are not comfortable entering a long-term contractual obligation, before “trying on” their new advisor. Prospective clients seeking validation have difficulty finding competent, objective advisors willing to work with them, on their terms.

A glaring example of a wealthy client seeking validation, on their terms, was a couple with combined annual income of over $500,000 and an investment net worth approaching $5 million. This couple inquired twice with my former practice. At that firm we provided comprehensive financial planning and ongoing investment management services, exclusively. Based on our fee schedule their first-year annual fee would have calculated to nearly $20,000. These individuals were extremely savvy money managers. They were not about to turn over the control of the investment portfolio to anyone. And they were not about to pay our ongoing annual financial planning fee. They are the epitome of the millionaires next-door. As soon as I started offering my services by the hour, I started seeing these clients once or twice every year. They built into their budget that they would

spend $2,000 a year in financial advisory fees with me. They had done and continue to do most of the leg work. Yet they sought out validation for certain issues with which they had little or no experience and for second opinions on what they were doing. One time, they hired me to do a significant cost basis research project. That engagement cost them $1,100. Another time, these savvy, money managers wanted to hire me to run Monte Carlo analysis on their retirement projection. They wanted to know with a high degree of certainty whether they would be able to retire as planned. That engagement cost just under $1,000. These clients were more than happy to pay my hourly rate, to have access to a competent, objective advisor, but it had to be on their terms. Hourly, as-needed advice was precisely what they were looking for.

You can see in each of the above examples, I was compensated for all the financial advice I gave, regardless of the subject matter. It did not matter whether the individual had extremely modest resources, whether there was an investment portfolio that I could manage, whether there was a need to secure any insurance or investment products, or whether the client was looking for an ongoing relationship, I was paid.

I would much prefer working with these untapped market segments, as I have described above, and be paid for all my work, then to chase the same few prospective clients that most every other financial advisor is after. This is a marketing decision as well as a business decision. All professionals must be paid - for all their work.

CHAPTER 5
DEBUNKING THE MYTHS

IT IS NOT THE STRONGEST SPECIES THAT SURVIVE, NOR THE MOST INTELLIGENT, BUT THE MOST RESPONSIVE TO CHANGE.

– Charles Darwin

In the previous chapters, I have highlighted several opportunities and benefits in working with the "Untapped Market" on an hourly or project-fee basis. In case you were not sure – I am a huge proponent of the service model I refer to as, "hourly, as-needed." However, because this is far from traditional in financial planning, there are still naysayers out there.

Some of the primary myths I've heard include:

1. "You Can't Make a Living."

I will concede that you can make more money, or the same money easier, delivering financial services and being compensated partially or fully by commissions. I also concede that gathering assets under management, or working exclusively with the wealthy, can be a very lucrative way of doing business for labor extended. We also must admit that this is where the big money has been, but it is not where the multitudes of prospective clients dwell.

So, on one end of the spectrum we have a very successful life insurance and annuity salesperson or an owner of a large independent wealth management firm, each making about $500,000 a year. These examples represent the "high" earners in our industry.

Recent industry surveys reveal that the average earnings of *all* financial planners run between about $65,000 for practitioners with 4 years of experience, $94,000 for those with 8 years' experience and $165,000 per year for those with 18+ years' experience.

Who you choose to serve need not have much impact on your earning potential compared to *how* you go about running your business. For example, I know practitioners who charge hourly, choose to remain solo and make very comfortable livings. Many choose to remain solo to maintain the utmost control of their work life-balance. My former practice, and that of others expanding across the country, look more like a small law-firm. A few "large" firms are developing.

The following are examples of various financial planning practices structures, that are "making it," while serving the Untapped Market on an hourly basis.

Remaining Solo

Ah…. the freedom of being truly independent. With that independence comes a lot of responsibilities. We are the rainmaker and the coffee maker; the receptionist and the compliance officer; the financial advisor and the business owner. Many advisors are not cut out for this. One may be a technically excellent advisor, yet a poor manager of time and resources. Successful solo practitioners become masters in the art of running a small business, as well as providing financial advice.

We all recognize that there are only so many hours in a day. Working solo significantly limits the amount of work that can be produced, which directly affects the amount of money that can be made, and the number of clients served.

Example Practice:

One Professional

Charging: $240/hour

Billing: 800 hours per year

Gross Revenues: $192,000

Overhead: Minus 1/3

Net: $128,000 to the practitioner

If you adjust the hourly rate, you get the following results:

@ $360/hour, $193,000 net to practitioner

@ $240/hour, $129,000 net to practitioner

@ $180/hour, $96,000 net to practitioner

@ $150/hour, $80,000 net to practitioner

The solo practitioner is a special breed. These are people who recognize that they work best alone. They cherish their independence. Quality of – and balance in – life are phrases commonly expressed by these practitioners working on an hourly or project basis. Their calendar controls their workflow. When they are done with a project they are done. No employees to train, manage, pay or keep busy. The solo practitioner places extreme value on this freedom.

The solo practitioner must be disciplined, focused and highly efficient. As a comparison, consider solo attorneys: What is their hourly rate? What is their overhead? How many hours can they bill in a year? Do people need them? Are they happy? Are they professionals?

Revenue Model for Hourly Solo Practitioners

	Year 1	Year 2	Year 3	Year 4	Year 5*
Estimated Hourly Billing Rate	$180	$180	$210	$210	$240
# of Weeks per Year You Plan to Work	50	50	48	48	48
# of Hours per Week You Plan to Work	50	50	40	40	40
Total Working Hours per Year	2500	2500	1920	1920	1920
Estimated % Billable Time	7%	12%	20%	30%	35%
Total Billable Hours per Year	175	300	384	576	672
Approx. # of Initial Engagements per Year	18	27	32	46	49
Approx. # of Check-Up Engagements per Year	0	9	22	38	61
Gross Revenue	$31,500	$54,000	$80,640	$120,960	$161,280
Estimated % Overhead Expense	64%	40%	33%	26%	23%
Overhead Expense	$20,160	$21,600	$26,611	$31,450	$37,094
Principal's Compensation	$11,340	$32,400	$54,029	$89,510	$124,186

*May need to consider hiring a paraplanner or staff planner at this point, if not sooner.

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Simply Expanding

To free up more time for billable work and eliminate or minimize the things we do not enjoy or are not efficient at doing, many practitioners are using some combination of the following outsourcing techniques.

The following is a limited list of outsourcing topics and resources. Please use your

imagination and find out all the ways you can leverage your time and energy by outsourcing what you don't like to do and what you don't do well.

- Receptionists/Phones/Appointments (Ruby Receptionists, RingCentral, Calendly, Schedule Once, Consider it Done)
- Data Entry/Back Office Administration (TWAMS, Financial Planning Outsource Services)
- Website Development and Maintenance (TwentyOverTen, AdvisorSites, Upwork.com)
- Marketing, Social Media, and Mailings (Fiverr, Upwork.com, TasksEveryday.com, Fancy Hands, Ask Sunday)
- Compliance (National Compliance Services, RIA in a Box, CS2)
- Accounting (Google QuickBooks bookkeepers and accountants in your area)
- Human Resources and Payroll (PayChex, ADP)
- Portfolio Management (Robos, such as Betterment or Wealthfront, or full-service, low cost, money managers such as; First Ascent Asset Management, or Flat Fee Portfolios)
- Investment Account Setup (Local Discount Brokerage Reps, Clients, Custodial platforms, such as TD Ameritrade)
- Specialty Advice (NATP – tax, Litman Gregory's Advisor Intelligence – investments, Bob Veres, Inside Information)

Be sure to check out the www.VirtualAssistantAssistant.com database for some great resources!

Example Practice:

One Professional

Charging: $240/hour

By Outsourcing, able to bill out 20% more time

Billing: 1,150 hours per year

Gross Revenues: $276,480

Overhead: Minus 1/3 + $15,000 additional costs to outsource

Net: $170,000 to the practitioner

This simple way to expand your practice is highly attractive to planners. Most of us would love to be able to spend most of our day doing what we enjoy and do best. Imagine if you could retain the pleasures of working by and for yourself but not have to do everything yourself.

Building a Business

I see the natural progression for many independent financial advisors to start out as a solo practitioner, and as the demand for their services grow, to begin outsourcing certain business tasks. These options have grown exponentially since I wrote the first edition of this book. This area of our industry, along with technology, is making things possible that we could not have imagined possibly imagine just a few years ago.

By outsourcing everything that we can and should, we can focus on what we do best, meeting with clients and providing financial advice. We can focus on billable work – yet everything critical to running our practice gets done.

Regardless of how much we can outsource, there is still a limit to how much quality work a solo practitioner can produce over any given period. Once you have mastered your workflow processes (more on that later in this book) and have delegated as much as possible to various outsource solution providers, you may find that you can take on substantially more clients than you single-handedly can serve.

The traditional next step for practitioners is to hire a full-time employee. Some of the things we must keep in mind regarding hiring employees involve fixed costs, such as additional office space, furniture, equipment, licenses, wages, and benefits. There is also a time demand: interviewing, hiring, training, managing, and supervising employees. However, we typically must invest this time to glean the benefits employees can provide us.

I recommend the first hire be a paraplanner. Personally, I never had a secretary or an administrative assistant in my hourly practice. I found that I could hire a paraplanner, for approximately the same wage as an administrative assistant, and the paraplanner could provide entry- level assistance and assist me directly with client work.

I don’t mind at all if this paraplanner does not have experience working with another financial planning firm. I do care, however, that this person has an educational background in financial planning, is eligible (and is planning) to sit for the CFP® certification comprehensive examination and is self-motivated.

I have had very good success hiring top graduates from local area colleges that offer a CFP Board-registered financial planning degree program. These talented young people are looking for opportunities to learn from veteran advisors, but often they are not interested in being the “rainmaker” at this point in their careers. Given that fact, I have found that there are substantial numbers of talented, motivated, yet inexperienced, college graduates looking for this type of opportunity.

As the paraplanner’s skills develop, they require less direct supervision and they begin to take on more and more responsibility. I find that within two years – ideally one – a talented and motivated paraplanner can begin taking on the role of a staff planner. In time, many staff planners desire to expand their opportunities and develop their own clientele. At that point you may give them the title of “lead planner”.

Paraplanners are paid a modest salary, but-staff planners and lead planners were paid strictly based on a portion of their billable hours. This fee-splitting arrangement is traditional with law firms and works well in financial planning firms also. Staff planners

are typically CFP® professionals, they have no marketing responsibilities, and they are paid 1/3 of the creditable hours they bill. Lead planners, on the other hand, are CFP® professionals, and do have marketing and compliance responsibilities. They are paid 2/3 of the creditable hours they bill. This compensation structure works out very well for the business owner. Staff planners and lead planners do not get paid unless the owner gets paid. And the more the owner makes, the more the staff and lead planners make.

The more work we can delegate to competent professional staff, the more work can be completed, and the greater the total revenues of the firm. This leverage has a direct impact on the net income, on the firm's ability to serve more clients, and provides great opportunity to expand and eventually sell the business.

Think about law and accounting firms…

Solo attorneys and accountants are extremely limited in the amount of work they can complete and the amount of money they can make. But, a small firm can be highly effective – providing that small business, entrepreneurial environment, while utilizing the leveraging quality of professional staff to maximize opportunities to serve and be compensated.

Now, imagine a large regional firm. That is where I see this trend heading for many independent financial planning entrepreneurs.

2. "Clients Won't Pay For It."

Some people won't, that's a fact. But there are plenty of people who will. Practitioners offering their services for a fee report that consumers do indeed pay for advice. In fact, these practitioners are thriving! These clients tend to be very conscious of how much they pay, but do not deny the fact that they must pay. They recognize that there is no "free lunch," and they are willing to pay a professional advisor for expertise and objectivity. The media is making great strides in educating the public.

Clients like transparency, knowing what they are paying for, which is often obscure with AUM, commission and other fee arrangements.

3."We Won't Be Able to Be Compensated for the Value We Provide."

Frequently, the most valuable services planners provide to clients are intangible. We confirm whether clients are on track to achieve their objectives and we validate and improve upon their strategies and approaches. We help make whatever adjustments are necessary along the way. How can we put a dollar figure on the intangible values we provide?

I use the example of a visit to the doctor's office. Should you pay more for an office visit that reveals a life-threatening illness? If so, how do you place a value on it? Of what value is an office visit to a patient who discovers they do not have a life-threatening illness, when they couldn't sleep for days worrying they might have something seriously wrong?

In my opinion, determining the appropriate value for the broad range of services we provide is impossible. I think of the Mastercard commercial… often what we do is "priceless". We can adjust the fee we charge for a specific project, based on complexity as well as time involved. However, as fiduciaries, we must fulfill our fiduciary duties to our clients. Our professional judgement is required to assess the scope to the engagement and quote a fair price that reflects the time, energy and expertise required to render advice that meets the fiduciary standard.

I charged for my time, energy, and wisdom – that is easy to communicate, and it is easy to understand. Yet, many advisors I know (myself included) have, and many continue to, underprice their services. We're working our way through this challenge. People are paying for advice. In this model, the cost is painfully and refreshingly transparent. It fits me and the type of clients I want to serve.

Get your hourly rate right in the beginning, raise it every couple of years and bill for all your work with and for your clients. We may never be fully compensated for the value we provide, but we will be compensated as professionals.

4."Implementation Won't Get Done."

I find most enjoyable part of the work is interacting *with* clients and providing *advice*. The thing I least liked about some of my previous roles in financial planning was all the paperwork (filling out forms, transferring money, reconciling accounts, etc.).

In my hourly practice, we provided specific advice and recommendations, as well as

step-by-step instructions, so clients could implement those recommendations on their own. In rare circumstances, we would assist special situation clients with certain stages of the implementation process (such as an elderly client who needed assistance in securing a bond ladder, transferring or re-titling assets; or clients who are unable or unwilling to complete the implementation steps themselves).

An important key to success for hourly, practitioners is to increase the percentage of billable hours. You can't bill a client accurately if you don't properly estimate the time involved when you give them your fee quote. It is common to underestimate the amount of time it takes to carry out various implementation steps (primarily because there are so many variables involved). However, if we leave the implementation responsibility to the client, while continuing to serve as their guide or coach, we can continue to do what we do best – provide fiduciary advice and coaching – and be paid for all of it. This drastically reduces the fee to the client, and it allows the advisor to focus on the parts of their job that is most fulfilling and rewarding to all parties.

Virtually all my recommendations were implemented – by the clients themselves. Part of the reason for this high success rate was my approach. When clients came to me, I stressed that I would supply them with advice, guidance, and clear instructions on how to implement my recommendations. They knew going into the relationship that they will be responsible for carrying out their plan. Set thorough and appropriate expectations from the beginning: This is what I do – This is what I don't do.

Imagine at your next annual physical your physician says, "you have high blood pressure, high cholesterol, and you need to go on a special diet and start exercising." You receive prescriptions for your blood pressure and high cholesterol and a recommendation to a nutritionist and exercise therapist. You went to the medical expert for advice about your physical well-being. You (and your insurance company) paid a considerable amount of money for this analysis and the recommendations. But don't you bet for one minute that your physician is going to lose one moment of sleep worrying about whether you did what he or she told you to do. You are a grown up. You sought out advice and paid good money for it. If you chose to ignore that advice, it is your prerogative.

What is the difference between us and the physician? We know how things in our industry work and what to expect. Clients might have had experience with another financial services person but many of us work very differently. Planners may assume clients understand how we operate when they don't. We need to make our expectations clear from the first moment we consider working together. It's all about setting and maintaining clear expectations.

In my personal experience, most of my clients were validators or do-it-yourselfers (see Chapter 1), and they had never worked with another advisor (or at least no one they considered "their" advisor). They managed their personal finances on their own prior to our meeting, but later realized that it was appropriate (or necessary) to have a professional occasionally review their situation. So, establishing clear and appropriate expectations with most of my clients was very easy. In fact, one of my earliest hourly clients said that she thought that all financial advisors worked like I did – until she tried to find one.

Most of my clients had been managing their personal financial affairs on their own –

good, bad, or indifferently until we met. They were looking for guidance, clarity, validation, and great ideas, but they didn't need me to take over the management of their affairs for them. I provided the direction – they provided most or all the leg work.

5. "**D**on't **Y**ou **W**orry **A**bout **L**iability **E**xposure?"

Since most of my engagements were *limited scope*, rather than promoted and sold as comprehensive financial planning services, and I documented my services specifically on my website, through my marketing materials, FAQ sheet, initial interview, client contract, Form ADV, presentation materials and notes to my internal file, I feel that I minimized my liability exposure as much as reasonably possible.

I didn't manage money, transfer assets or place trades, except in very rare cases. Handling transfers, and transactions are where a lot of mistakes are made. I left that responsibility with the client.

An attorney explained that by limiting the scope of my work, I was also limiting my liability. Errors and Omissions insurers agree. Our premiums for E&O insurance are substantially less than brokers, registered representatives, money managers, and even AUM-based planners.